



AUDITOR - GENERAL  
SOUTH AFRICA



**GENERAL REPORT**  
ON THE PROVINCIAL AUDIT OUTCOMES

**WESTERN CAPE**  
PFMA 2011-12



AUDITOR - GENERAL  
SOUTH AFRICA

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**GENERAL REPORT**  
ON THE PROVINCIAL AUDIT OUTCOMES  
**WESTERN CAPE**  
2011-12

# Our *reputation promise/mission*

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**The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution of South Africa, it exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.**

The information and insights presented in this flagship publication of my office are aimed at empowering oversight structures and provincial executive leaders to focus on those issues that will result in reliable financial statements, credible reporting on service delivery and compliance with laws and regulations.

This publication also captures the commitments that leaders have made to improve audit outcomes.



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## **AUDITOR-GENERAL: TERENCE NOMBEMBE**

*Our responsibility extends to citizens who trust us to make a contribution towards a better South Africa*

# overview



**Foreword**

*Outcomes show significant progress only for entities and some improvement for departments (Section 2.1.1)*



Four departments and six entities achieved clean audits (Section 2.1.1)

**Movement in findings relating to predetermined objectives for departments without findings remained positively stable from 2010-11 (Section 2.1.2)**

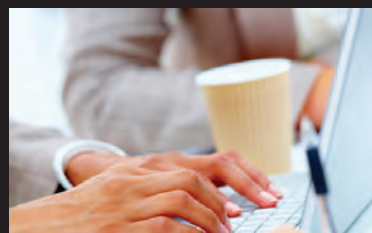
12

**Critical SCM issues needing attention (Section 2.4.3)**

50



23



Challenges in passing the compliance test (Section 2.4)

46

24



**High levels of unauthorised and irregular expenditure (Section 2.4.4)**

54

25





**The drivers of audit outcomes  
(Section 3)**

65



**A call to  
accounting  
officers to own  
key controls  
(Section 3.1)**

65

**The need to monitor the  
implementation of action  
plans (Section 3.1)**

67



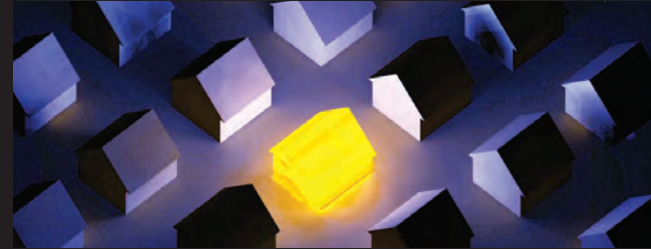
**Identifying  
critical IT issues  
(Section 3.3.2)**

74



**Roles audit committees must play  
(Section 3.4)**

80



**Internal audit and audit outcomes  
(Section 3.4)**

80



**Commitments of role players  
(Section 4.1)**

90

# Table of contents

FOREWORD .....	12	2.2.4 Consolidated financial statements .....	35
SECTION 1: EXECUTIVE SUMMARY .....	17	<b>2.3 FINDINGS ARISING FROM THE AUDIT OF REPORTING ON PREDETERMINED OBJECTIVES .....</b>	<b>35</b>
SECTION 2: OVERVIEW OF AUDIT OUTCOMES....	23	2.3.1 Overall outcomes of the audit of reporting on predetermined objectives .....	35
<b>2.1 OVERALL AUDIT OUTCOMES.....</b>	<b>23</b>	2.3.2 Findings on predetermined objectives.....	38
2.1.1 Summary of overall audit outcomes .....	23	2.3.3 Planned targets not achieved.....	41
2.1.2 Improvements and regressions in audit outcomes .....	25	2.3.4 Root causes and best practice recommendations.....	41
2.1.3 Province's progress towards producing unqualified financial statements.....	28	<b>2.4 FINDINGS ARISING FROM THE AUDIT OF COMPLIANCE WITH LAWS AND REGULATIONS ....</b>	<b>46</b>
2.1.4 Province's rate of addressing findings on predetermined objectives and compliance with laws and regulations.....	29	2.4.1 Overall outcomes from the audit of compliance with laws and regulations.....	46
2.1.5 Status and outcomes of audits not finalised by 15 October 2012.....	29	2.4.2 Compliance with laws and regulations findings .....	46
2.1.6 Outcomes of audits no conducted by the Auditor-General of South Africa.....	31	2.4.3 Findings arising from the audit of supply chain management... 50	
<b>2.2 FINDINGS ARISING FROM THE AUDIT OF FINANCIAL STATEMENTS ...</b>	<b>31</b>	2.4.3.1 Limitations on planned scope of audit of awards .....	51
2.2.1 The quality of financial statements submitted for audit purposes ....	31	2.4.3.2 Awards to state officials and close family members .....	51
2.2.2 Financial statement qualification findings .....	33	2.4.3.3 Uncompetitive or unfair procurement processes .....	52
2.2.3 Root causes and best practice recommendations.....	33	2.4.3.4 Inadequate supply chain management controls .....	53
		2.4.4 Unauthorised, irregular as well as fruitless and wasteful expenditure incurred .....	54

2.4.5 Root causes and best practice recommendations.....	59
--	----

**SECTION 3: AUDITEES’ SYSTEMS OF INTERNAL CONTROL ..... 65**

3.1 OVERALL STATUS OF INTERNAL CONTROL.....	65
---	----

3.2 HUMAN RESOURCE MANAGEMENT.....	70
------------------------------------	----

3.3 MANAGEMENT OF INFORMATION TECHNOLOGY.....	73
---	----

3.3.1 Information technology management as a specific key driver of audit outcomes.....	73
---	----

3.3.2 Summary of overall identified weaknesses in the management of financial information systems.....	74
--	----

3.3.3 Audit of performance information systems.....	75
---	----

3.3.4 Status of addressing management commitments.....	76
--	----

3.3.5 Key information technology concerns.....	78
--	----

3.3.6 Quick wins in resolving information technology weaknesses.....	79
--	----

3.3.7 Good information technology practices in the province.....	80
--	----

3.4 AUDIT COMMITTEES AND INTERNAL AUDIT.....	80
--	----

**SECTION 4: IMPACT OF KEY ROLE PLAYERS ON AUDIT OUTCOMES ..... 85**

4.1 INITIATIVES AND COMMITMENTS MADE BY KEY ROLE PLAYERS TO IMPROVE AUDIT OUTCOMES.....	90
---	----

4.2 STATUS OF IMPLEMENTATION OF PUBLIC ACCOUNTS COMMITTEE OVERSIGHT RESOLUTIONS.....	106
--	-----

4.3 AUDITOR-GENERAL OF SOUTH AFRICA’S INITIATIVES TO ENCOURAGE CLEAN AUDITS.....	109
--	-----

**SECTION 5: EMERGING MATTERS AND AUDITEES’ FINANCIAL HEALTH INDICATORS.. 117**

5.1 OTHER CURRENT AND EMERGING MATTERS THAT REQUIRE ATTENTION.....	117
--	-----

5.2 FINANCIAL HEALTH INDICATORS.....	116
--------------------------------------	-----

5.2.1 Budget, asset and liability management and conditional grants ..	118
--	-----

5.2.2 Revenue, and expenditure management.....	120
--	-----

<b>GLOSSARY OF TERMS.....</b>	<b>126</b>
-------------------------------	------------

<b>ANNEXURE.....</b>	<b>130</b>
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# WESTERN CAPE CLEAN AUDITS 2011-12

## DEPARTMENT

**Community Safety**  
**Environmental Affairs and  
Development  
Planning**  
**Provincial Parliament**  
**Provincial treasury**

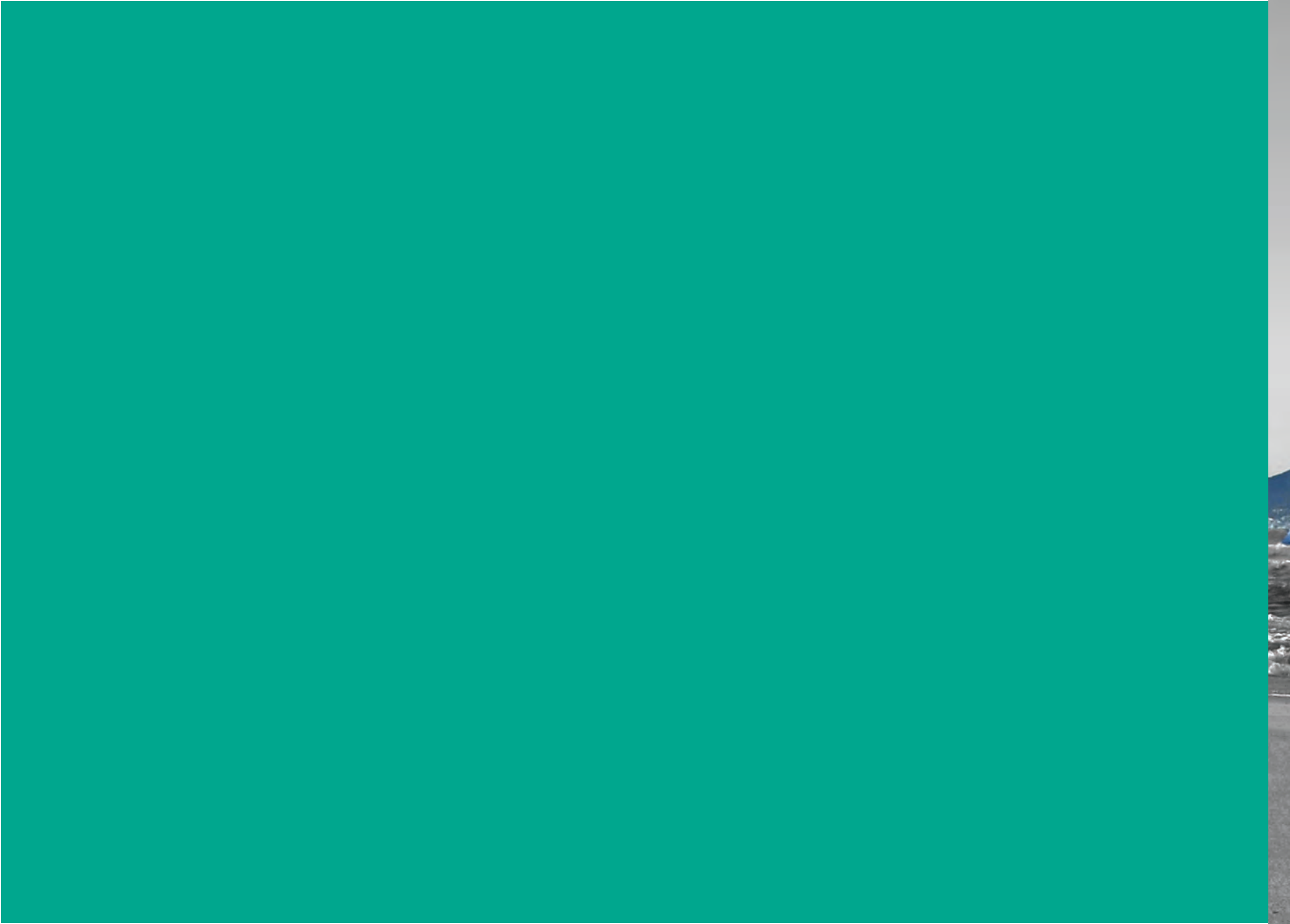
## PUBLIC ENTITY

**Cape Medical Depot**  
**Destination Marketing Organisation  
(T/A Cape Town Routes Unlimited)**  
**The Heritage Western Cape**  
**Western Cape Cultural Commission**  
**Western Cape Gambling and Racing  
Board**  
**Western Cape Language Committee**

# FOREWORD



AUDITOR - GENERAL  
SOUTH AFRICA







# FOREWORD

I hereby present to the legislature of the Western Cape my 2011-12 general report summarising the results of the audit outcomes of provincial government for the financial year ended 31 March 2012.

At a point where, based on the previous year's commitments, there was an expectation of significant improvement overall towards clean administration, these outcomes show significant progress only for entities and some improvement for departments.

My message for the 2010-11 financial period confirmed the leadership's pledge – that the basic principles of monthly reporting, validation of reported information by internal audit units and audit committees, and constant monitoring will be the pillars on which the commitments for the coming year need to be based. This informed the new commitments that ranged from enhancing the monitoring and oversight capacity of the legislature and its committees, the development and support of entity-specific action plans to address financial and performance management, and the provincial treasury capitalising on the Financial Management Improvement Plan initiative to monitor the quality of departments' action plans and their implementation. To give effect to these commitments, officials will need to be monitored to ensure that they perform their responsibilities in line with their job requirements.

None of the commitments made in the 2010-11 general report have been fully realised as a result of management, governance and oversight structures not working together in monitoring internal controls on a daily, monthly and quarterly



*The Western Cape government remains committed to ensuring our compliance with the framework and guidelines for the sound and sustainable management of the province's financial affairs.*

basis to drive the achievement of sustainable positive audit outcomes. Even though progress has been made in some areas, the major limitation in the commitments was the lack of detailed and specific target dates for implementation. In addition, our office did not consistently highlight shortcomings in the rate of implementation of the action plans to management and oversight structures during the regular interactions that were held with the leadership.

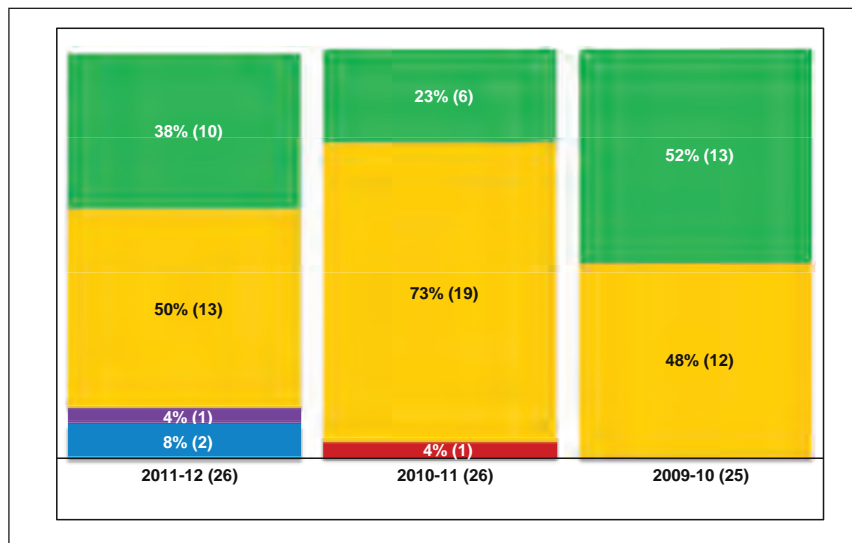
With improved internal controls, the province would be better positioned to manage the reported cash flow and service delivery results which reflect that for 57% of departments the budget allocation was insufficient to fund liabilities at year-end, while 62% of departments and 50% of public entities achieved fewer than 80% of their service delivery targets. It is pleasing to see the improvement in outcomes in those auditees whose leadership has accepted accountability for the internal control deficiencies highlighted in the prior year audits as well as during the quarterly key control interventions. In addition to the four departments that achieved a clean audit status, special mention must be made of the Department of Health whose findings have decreased significantly as a result of the accounting officer accepting accountability for the internal control deficiencies highlighted by the auditors. As undertaken in the previous year's general report, my office remains committed to supporting the commitments made in that report.

I wish to thank the audit teams from my office and the audit firms that assisted with the audits for their diligent efforts towards fulfilling our constitutional mandate and the manner in which they continue to strengthen cooperation with the leadership of provincial portfolios.

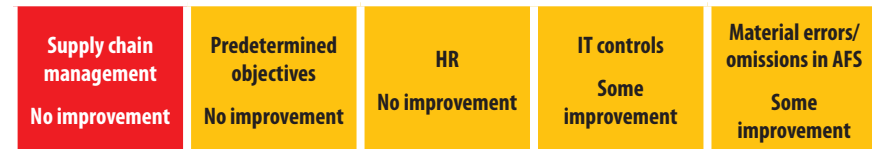
*Auditor-General*

**Auditor-General  
Pretoria  
March 2013**

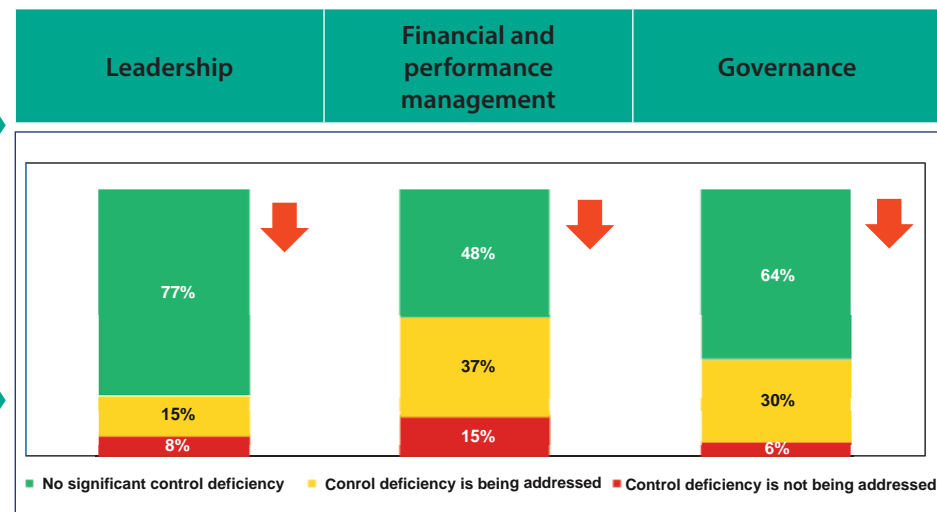




5 risk areas



Key controls



Accounting officers need to take ownership of key controls

Lack of consequences for non-adherence/lack of accountability

Inadequate discipline of credible monthly reporting on financials, performance and compliance

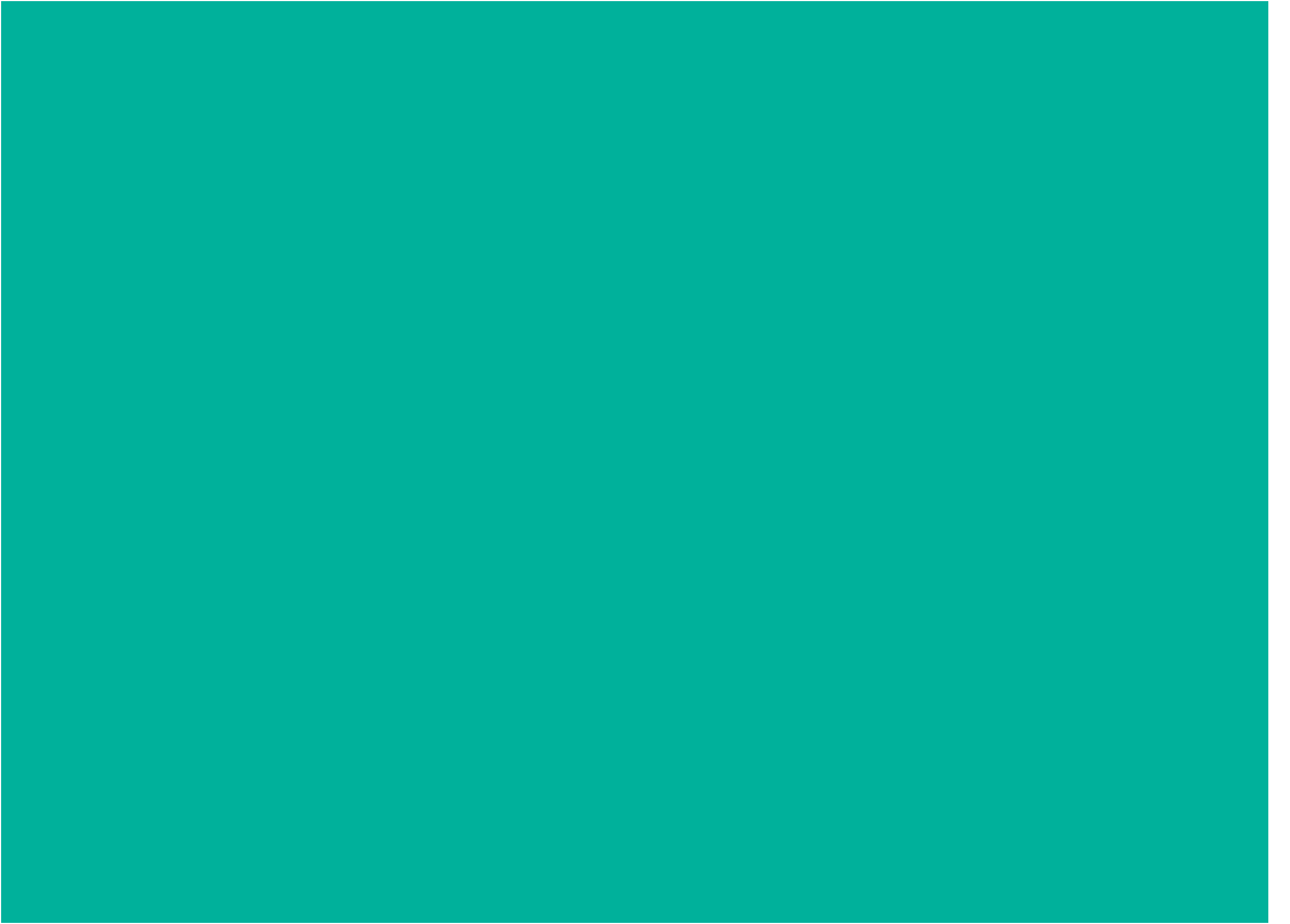


# SECTION 1

## EXECUTIVE SUMMARY



AUDITOR - GENERAL  
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# SECTION 1

## EXECUTIVE SUMMARY

Significant aspects of audit outcomes are summarised in the table below, while sections 2 to 3 provide a more detailed analysis of findings, trends and root causes. Commitments received from role players are outlined in section 4.





**Table 1: Significant aspects of the audit outcomes**




Aspect	Indicator	Key outcomes and trends
<b>Overall audit outcomes</b>		<ul style="list-style-type: none"> <li>Ten (42%) auditees out of 24 analysed have progressed to clean audits, represented by four departments (17%) and six entities (25%).</li> </ul>
		<ul style="list-style-type: none"> <li>Education (4% of auditees) regressed from financially unqualified to qualified.</li> </ul>
		<ul style="list-style-type: none"> <li>Two (8%) auditees regressed from clean audits to financially unqualified with findings on non-compliance with laws and regulations.</li> </ul>
		<ul style="list-style-type: none"> <li>Eleven (46%) auditees retained their prior financially unqualified audit opinions as they had not sufficiently addressed their findings on predetermined objectives and/or compliance in order to obtain clean audits.</li> </ul>
<b>Submission of financial statements and annual performance reports for audit</b>		<ul style="list-style-type: none"> <li>Twenty-three (88%) auditees out of 26 submitted financial statements and performance reports for auditing by 31 May 2012.</li> <li>Fifteen (63%) auditees submitted financial statements that required no material adjustments, compared to 12 (50%) auditees in the prior year.</li> </ul>




Aspect	Indicator	Key outcomes and trends
		<ul style="list-style-type: none"> <li>The Housing Development Fund (disclaimer 2010-11) submitted financial statements on 6 July 2012 in an attempt to correct their asset register to address prior year qualifications. Government Motor Transport submitted financial statements on 26 June 2012 due to late finalisation of a difference of opinion on an accounting matter related to finance leases.</li> </ul>
		<ul style="list-style-type: none"> <li>Education (4% of auditees) could not correct a misstatement relating to mobile classrooms.</li> <li>Eight (33%) auditees were able to achieve a financially unqualified audit outcome because they used the opportunity provided by the AGSA to correct all misstatements identified during the audit.</li> </ul>
		<ul style="list-style-type: none"> <li>Four (17%) auditees submitted performance reports that contained material misstatements in one or more areas that required material adjustments. Two (8%) auditees, namely Community Safety and Transport and Public Works, were able to avoid audit report findings on predetermined objectives because they used the opportunity provided by the AGSA to correct all misstatements identified during the audit.</li> </ul>
<b>Opinions on financial statements</b>	 	<ul style="list-style-type: none"> <li>Twenty-three (96%) auditees achieved financially unqualified opinions on their financial statements.</li> <li>Education (4% of auditees) received a qualified opinion due to the incomplete and inaccurate recording of mobile classrooms.</li> </ul>
<b>Reporting on predetermined objectives</b>		<ul style="list-style-type: none"> <li>Two entities (Western Cape Gambling and Racing Board and the Western Cape Investment and Trade Promotion Agency) improved their outcomes on predetermined objectives</li> </ul>








Aspect	Indicator	Key outcomes and trends
		<ul style="list-style-type: none"> <li>The remainder of the departments (12) and entities (8) maintained their outcomes on predetermined objectives with no findings included in the audit report on PDOs. For three of these departments (Cultural Affairs and Sport, Environmental Affairs and Development Planning and Local Government) and seven of these entities (Cape Medical Depot, Destination Marketing Org (T/A Cape Town Routes Unlimited) The Heritage Western Cape, Western Cape Provincial Development Council, Western Cape Cultural Commission, Western Cape Investment and Trade Promotion Agency and the Western Cape Language Committee), no findings (whether material or not) were raised during the 2011-12 financial year.</li> <li>The outcomes on predetermined objectives of two departments (Social Development and Human Settlements) regressed during the 2011-12 financial year as findings were raised in more of the predetermined objective focus/reportable areas during the 2011-12 financial year compared to the 2010-11 financial year.</li> <li>Sixty-two per cent of departments and 50% of public entities only achieved 80% or fewer of their service delivery targets.</li> </ul>

Aspect	Indicator	Key outcomes and trends
<b>Findings on non-compliance with laws and regulations</b>	 	<ul style="list-style-type: none"> <li>Four departments and six entities (42% of auditees) had no findings on non-compliance with laws and regulations.</li> <li>Ten departments and four entities (58% of auditees) had findings on non-compliance with laws and regulations with the most prevalent areas being procurement and contract management, unauthorised, irregular and fruitless and wasteful expenditure and material adjustments required to the financial statements.</li> </ul>
<b>Supply chain management</b>	 	<ul style="list-style-type: none"> <li>Ten (42%) auditees had no findings, represented by Environmental Affairs and Development Planning (4%) and nine entities (38%).</li> <li>Findings were reported in the management reports of 15 (63%) auditees, while at eight (33%) of these auditees the findings were material enough to warrant reporting thereof in the auditor's report as non-compliance. The most prevalent findings related to employees performing remunerative work outside their employment without written permission, three written quotations not invited and/or deviations not justified and declarations of interest not submitted by providers.</li> </ul>

Aspect	Indicator	Key outcomes and trends
<b>Internal controls</b>		<ul style="list-style-type: none"> <li>Members of executive councils and accounting officers made themselves available to meet with the AGSA on a quarterly basis and, in some instances, entities have taken ownership of key control self-assessment. During the quarterly interactions the key roles of Members of executive councils, accounting officers and chief financial officers in driving clean audit outcomes were clearly outlined.</li> </ul>
		<ul style="list-style-type: none"> <li>There was inadequate review of supporting documentation forming the basis for the compilation of financial statements and performance reporting. The financial statements were not adequately reviewed against the financial reporting framework prior to the submission thereof for audit purposes. This resulted in material misstatements that had to be corrected after the submission of the financial statements.</li> </ul>
		<ul style="list-style-type: none"> <li>The monitoring of laws and regulations, in particular in the area of procurement and contract management, remained one of the biggest challenges in the province. Management has not ensured that proper guidance is provided to all staff involved in the procurement process and that sufficient training had taken place to ensure compliance with these requirements.</li> <li>The overall improvement in some entities and the deterioration/stagnation in the audit outcomes of other entities are directly associated with the leadership setting the tone at the top. There is an intention by leadership in the province to obtain clean audit outcomes; however, the execution should match the intention. Execution will become a reality when leadership holds officials accountable and requires that action be taken against officials for transgressions or poor performance.</li> </ul>

Aspect	Indicator	Key outcomes and trends
<b>Human resource management</b>		<ul style="list-style-type: none"> <li>The human relations areas that showed improvement were human relations planning and organisation, performance management and management of leave, mainly due to improved monitoring.</li> </ul>
		<ul style="list-style-type: none"> <li>Overall, the management of vacancies regressed compared to the prior year with three departments reflecting increased findings in this area compared to two departments in the prior year.</li> </ul>
		<ul style="list-style-type: none"> <li>The management of appointments also regressed when compared to the prior year when only three departments had findings. In the current year this figure increased to seven departments.</li> <li>The number of findings relating to acting positions and overtime remained consistent year on year. Departments must remain vigilant to ensure that these findings are adequately addressed going forward to positively impact on audit outcomes.</li> </ul>

Aspect	Indicator	Key outcomes and trends
<b>Management of information technology</b>		<ul style="list-style-type: none"> <li>The Department of the Premier has established formal information technology structures, processes and policies for the province, which resulted in improvements related to information technology governance for 10 departments.</li> </ul>
		<ul style="list-style-type: none"> <li>Security management controls have been adequately designed; however, implementation weaknesses were identified at the State Information Technology Agency and the Department of the Premier, which affect all departments.</li> <li>The provincial treasury has issued guidelines for user account management for the transversal financial systems (BAS, Persal and Logis). Design weaknesses in the management of user accounts for non-transversal systems were identified at seven departments.</li> </ul>

Aspect	Indicator	Key outcomes and trends
<b>Audit committees and internal audit</b>		<ul style="list-style-type: none"> <li>All 14 departments and nine out of 10 public entities reported on had audit committees and internal audit units in place for the period under review, as prescribed by the PFMA and related treasury regulations. All the audit committees and internal audit functions generally complied with the legislated requirements and the evaluation of internal controls.</li> </ul>
		<ul style="list-style-type: none"> <li>There is a very distinct difference between being compliant and being effective. Based on the audit outcomes it appears that 19 (83%) of the audit committees had a direct impact and 17% had no impact on the audit outcomes of their respective auditees.</li> <li>Maximum value has not been derived from internal audit units as they have not been successful in addressing deficiencies in the areas of compliance with laws and regulations, reporting on predetermined objectives and the financial statement preparation process, as can be seen from the limited positive impact on audit outcomes.</li> </ul>
<b>Financial health</b>		<ul style="list-style-type: none"> <li>For 57% of departments the budget allocation was insufficient to fund liabilities at year-end.</li> <li>Twenty-nine per cent of departments had year-end bank balances that were in overdraft.</li> </ul>

# SECTION 2

## OVERVIEW OF AUDIT OUTCOMES

- 2.1 OVERALL AUDIT OUTCOMES
- 2.2 FINDINGS ARISING FROM THE AUDIT OF FINANCIAL STATEMENTS
- 2.3 FINDINGS ARISING FROM THE AUDIT OF REPORTING ON PREDETERMINED OBJECTIVES
- 2.4 FINDINGS ARISING FROM THE AUDIT OF COMPLIANCE WITH LAWS AND REGULATIONS



AUDITOR - GENERAL  
SOUTH AFRICA





# SECTION 2:

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## OVERVIEW OF AUDIT OUTCOMES

This section of the general report provides the province's overall audit outcomes (section 2.1), followed by further details on findings arising from the audit of the financial statements (section 2.2), reporting by auditees against their predetermined objectives (section 2.3) and compliance by auditees with laws and regulations (section 2.4).

Root causes of audit findings and recommended best practices are also analysed in the respective sections. This should be read together with an analysis of the drivers of audit outcomes in section 3 of this general report. Section 4 records the commitments received from the provincial executive leadership and oversight structures and other national and provincial role players in response to the 2011-12 audit outcomes. Section 5 highlights other current and emerging matters and the financial health of the province requiring attention from the leadership.

### 2.1 OVERALL AUDIT OUTCOMES

The Western Cape government comprises 27 auditees – 15 departments (which include the provincial parliament and the revenue fund) and 12 public entities.

The public entities include nine provincial public entities, two trading entities and one other entity that is not subject to the PFMA.

One of the public entities is not audited by the AGSA. The audit outcome of this public entity is not included in this report except for a summary of its outcomes in section 2.1.6.

#### 2.1.1 Summary of overall audit outcomes

The audits of 14 (100%) departments and nine (100%) public entities that submitted financial statements by 31 May 2012 were completed within the legislated time frame of two months from receipt of their financial statements by the AGSA. In addition, the audit of one (50%) of the public entities that submitted financial statements after 31 May 2012 was completed in time for inclusion of its audit outcomes in this report. The audit of the provincial revenue fund had not been finalised by 15 October 2012, the cut-off date set by the AGSA for inclusion in this report.

The audit outcomes and outstanding audit reports (current and prior year) are summarised in the following table. 'With findings' denotes findings on predetermined objectives (PDOs) and/or compliance with laws and regulations. Clean audits are achieved when the financial statements are unqualified and there are no reported audit findings in respect of reporting on PDOs and compliance with laws and regulations.

**Table 2: Summary of audit outcomes for current and prior year**

Audit outcomes	Departments*		Public entities**		Total	
	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11
Financially unqualified with no findings (clean audits)	4	4	6	2	10	6
Financially unqualified with findings	9	11	4	8	13	19
Financially unqualified financial statements	87%	100%	91%	91%	88%	96%
Qualified opinion, with findings	1	0	0	0	1	0
Adverse opinion, with findings	0	0	0	0	0	0
Disclaimer of opinion, with findings	0	0	0	1	0	1
Number of audit reports not issued by 15 October 2012	1	0	1	0	2	0
Outstanding audits and financially qualified financial statements	13%	0%	9%	9%	12%	4%
Total number of audits in the province	15	15	11	11	26	26

\* Including provincial parliament and provincial revenue fund






\*\* Including trading entities and other entities




Annexure 1 to this report lists the current and prior year audit outcomes of all auditees.

## 2.1.2 Improvements and regressions in audit outcomes

The following table analyses the overall movement in provincial government audit outcomes between the current and previous financial year.

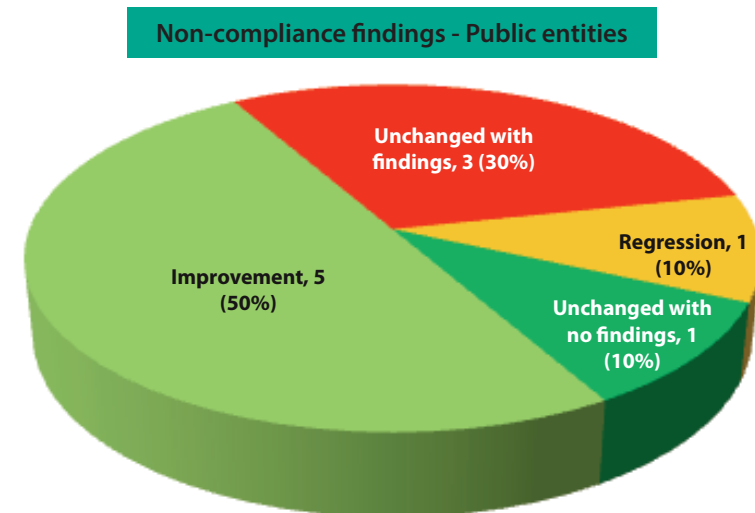
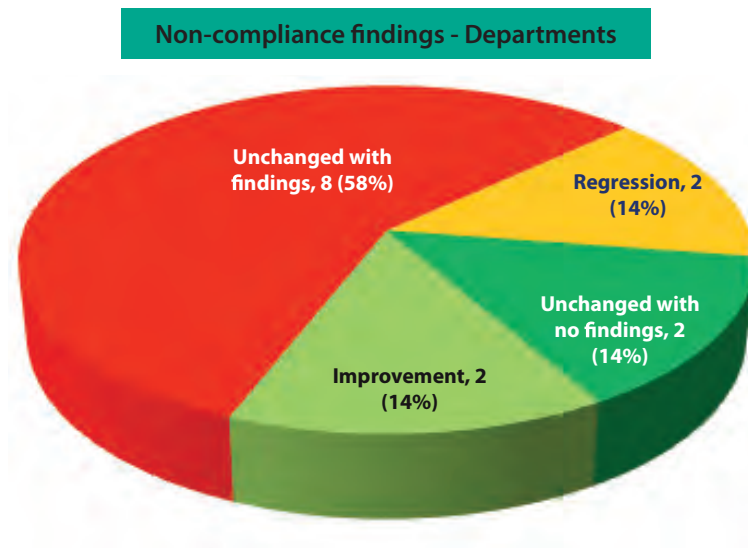
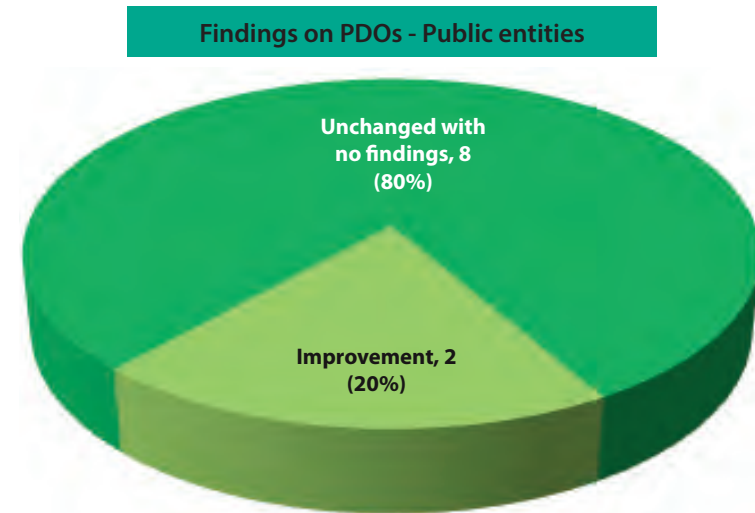
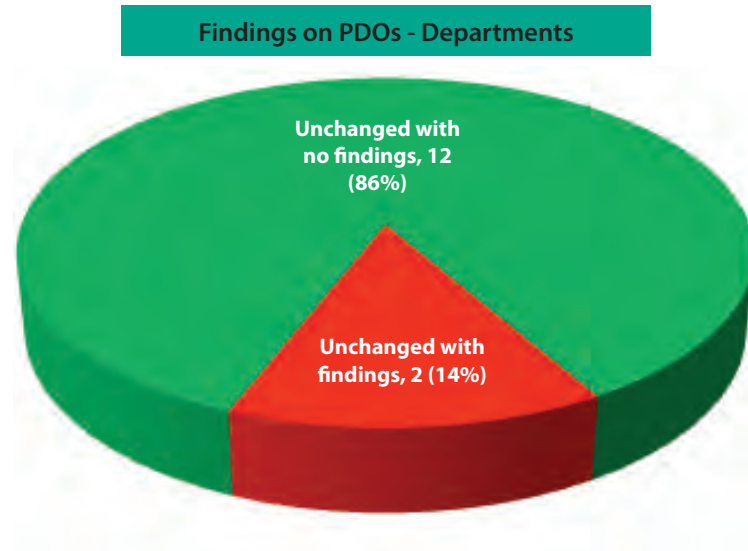
**Table 3: Summarised movements in overall audit outcomes**

Departments: Movement in audit outcomes from 2010-11					
Audit opinion	Improvement	Unchanged	Regressed	Total auditees reported on	Outstanding audits - prior year opinion
Financially unqualified with no findings				4	1
Financially unqualified with findings				9	
Qualified with findings				1	
Adverse \Disclaimer with findings					
<b>Total</b>	<b>2</b>	<b>10</b>	<b>2</b>	<b>14</b>	<b>1</b>

Public entities: Movement in audit outcomes from 2010-11					
Audit opinion	Improvement	Unchanged	Regressed	Total auditees reported on	Outstanding audits - prior year opinion
Financially unqualified with no findings	 5	 1		6	
Financially unqualified with findings		 3	 1	4	
Qualified, with findings					
Adverse/ Disclaimer with findings					1
<b>Total</b>	<b>5</b>	<b>4</b>	<b>1</b>	<b>10</b>	<b>1</b>

The following figure provides an analysis of findings on PDOs and compliance with laws and regulations.

**Figure 1: Summarised movements in findings on predetermined objectives and compliance with laws and regulations from 2010-11**



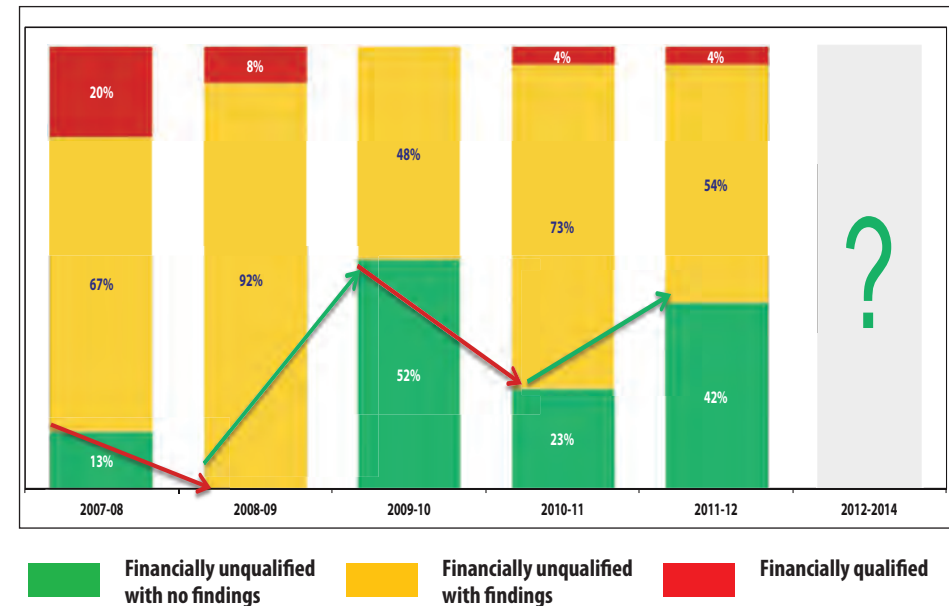
The movement in PDO outcomes for departments without findings remained positively stable from 2010-11; however, the extent of findings reported in the two departments that had findings in the prior year has increased. It is also of note that the two departments remaining with findings are two of the bigger service delivery departments in the province (Human Settlements and Social Development). All findings on PDOs in 2010-11 have been addressed by public entities and were not reported again in 2011-12.

The majority of departments with non-compliance findings in 2010-11 remained unchanged; however, it is encouraging to note that both the provincial parliament and the provincial treasury did not have any non-compliance findings in the 2011-12 and prior year audit reports. Public entities made significant progress in addressing prior year findings related to non-compliance as evidenced by the number that attained clean audit outcomes in the 2011-12 financial year.

### 2.1.3 Province's progress towards producing unqualified financial statements

Obtaining financially unqualified audit reports is an important milestone towards clean audits. The province's five-year progress towards producing unqualified financial statements is depicted in the following figure.

**Figure 2: Five-year progress towards financially unqualified audit reports**



Over the past five years there has been an upward trend in the achievement of clean audit reports; however, based on the erratic picture above, there is cause for concern regarding the sustainability of the audit outcomes. Some actions implemented to improve audit outcomes are merely short-term solutions and are not effective for more than one financial year. There is also inadequate discipline at auditees in relation to monthly reporting on financial, performance and compliance matters and ensuring credibility of the information reported through the use of internal control units and/or internal audit.

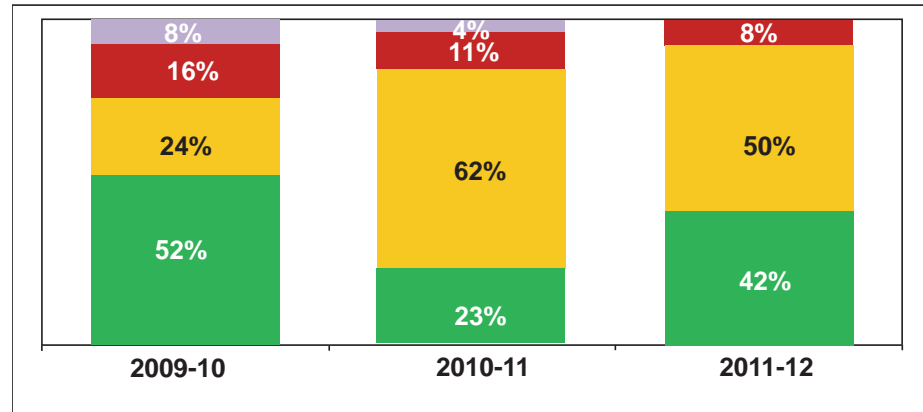
It should also be noted that the improvement seen from 2010-11 to 2011-12 is largely attributable to the improvement, of audit outcomes of public entities and not service delivery departments responsible for the larger portion of the province's budget.

The major cause for concern is the regression of Education to a financially qualified opinion due to inadequate actions taken by management to record all movable assets (mobile classrooms) in addition to repeat non-compliance findings, particularly on procurement and contract management.

### 2.1.4 Province's rate of addressing findings on predetermined objectives and compliance with laws and regulations

The progress made by the province over the past three years in addressing audit findings on PDOs and compliance with laws and regulations is depicted below.

**Figure 3: Three-year progress in addressing findings on predetermined objectives and compliance**

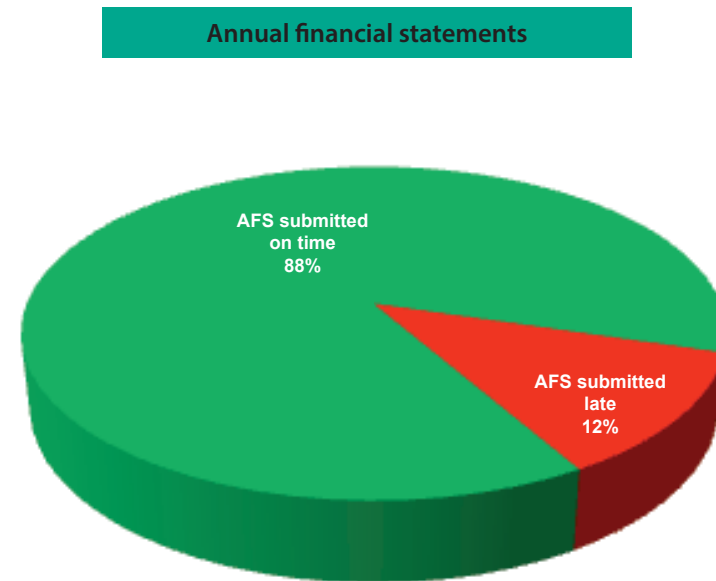


As was reported in the prior year, there was again a decrease in the number of auditees with PDO findings due to a conscious focus by the province to address matters concerning the reporting on PDOs. However, the extent of findings reported at the two larger departments is cause for concern. Overall, there has been an improvement in the number of auditees with findings on compliance with laws and regulations and care should be exercised to ensure that this is sustainable beyond 2011-12.

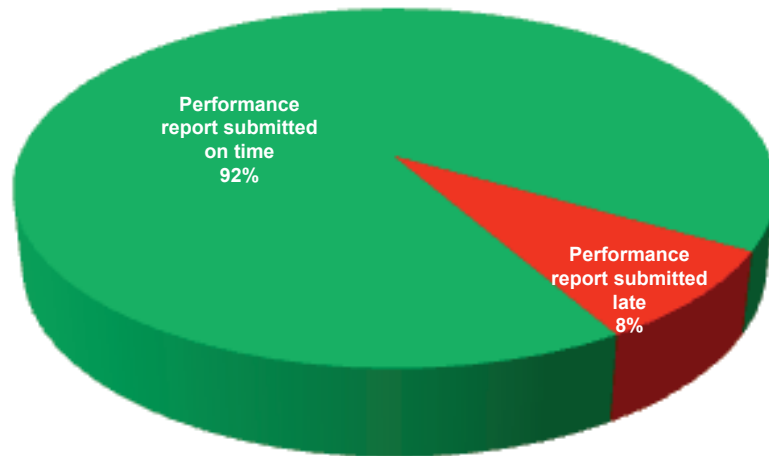
### 2.1.5 Status and outcomes of audits not finalised by 15 October 2012

The timeliness of completion of audits is primarily influenced by the date of receipt by the AGSA of auditees' financial statements and the efficiency with which the audits proceed thereafter. As can be seen in the following figure, Government Motor Transport, the Western Cape Housing Development Fund and the Provincial Development Council (12%) were unable to meet the legal requirement for timely submission of financial statements and Government Motor Transport also had problems in the case of performance reports.

**Figure 4: Timeliness of submission of financial statements and annual performance reports for audit purposes**



### Annual performance reports



30

Between 15 October 2012, the date set by the AGSA for inclusion of audit outcomes in the general report, and the date of this report, two further audits were finalised, but their outcomes are not included in the analysis contained in this report. Details of these audit outcomes are presented in the following table.

**Table 4: Outcomes of audits finalised after 30 September 2012**

Auditee	2011-12 Audit opinion	2010-11 Audit opinion	Movement from 2010-11 audit opinion
<b>Departments</b>			
Provincial Revenue Fund	Financially unqualified with no findings	Financially unqualified with no findings	↔
<b>Public entities</b>			
Western Cape Housing Development Fund	Financially unqualified with findings	Disclaimer	↑

The financial statements of the provincial revenue fund were received on 12 September 2012 and the audit was finalised 23 November 2012. There is no legislated date for submission of the financial statements of the provincial revenue fund. The Western Cape Housing Development Fund submitted financial statements late due to challenges in an attempt to improve prior year audit outcomes. The audit was finalised on 12 December 2012 and was not finalised within two months from receipt of the financial statements due to internal quality control processes.



### **2.1.6 Outcomes of audits not conducted by the Auditor-General of South Africa**

In terms of section 25(1)(a) of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), the Auditor-General elected not to audit Casidra Pty (Ltd). This entity was permitted to appoint its own auditors, in consultation with the AGSA. The 2011-12 audit of the public entity was completed by the legislated date of 31 August 2012. Casidra (Pty) Ltd received a financially unqualified opinion with no findings for the 2010-11 and the 2011-12 financial year.

## **2.2 FINDINGS ARISING FROM THE AUDIT OF FINANCIAL STATEMENTS**

The purpose of the annual audit of the financial statements is to provide the users thereof with an opinion on whether the financial statements fairly present, in all material respects, the financial position (statement of financial position) and results of an auditee's operations (statement of financial results) and cash flows for the period in accordance with the applicable accounting framework and the requirements of the applicable legislation. The audit provides the users with assurance on the degree to which the financial statements are reliable and credible.

### **2.2.1 The quality of financial statements submitted for audit purposes**

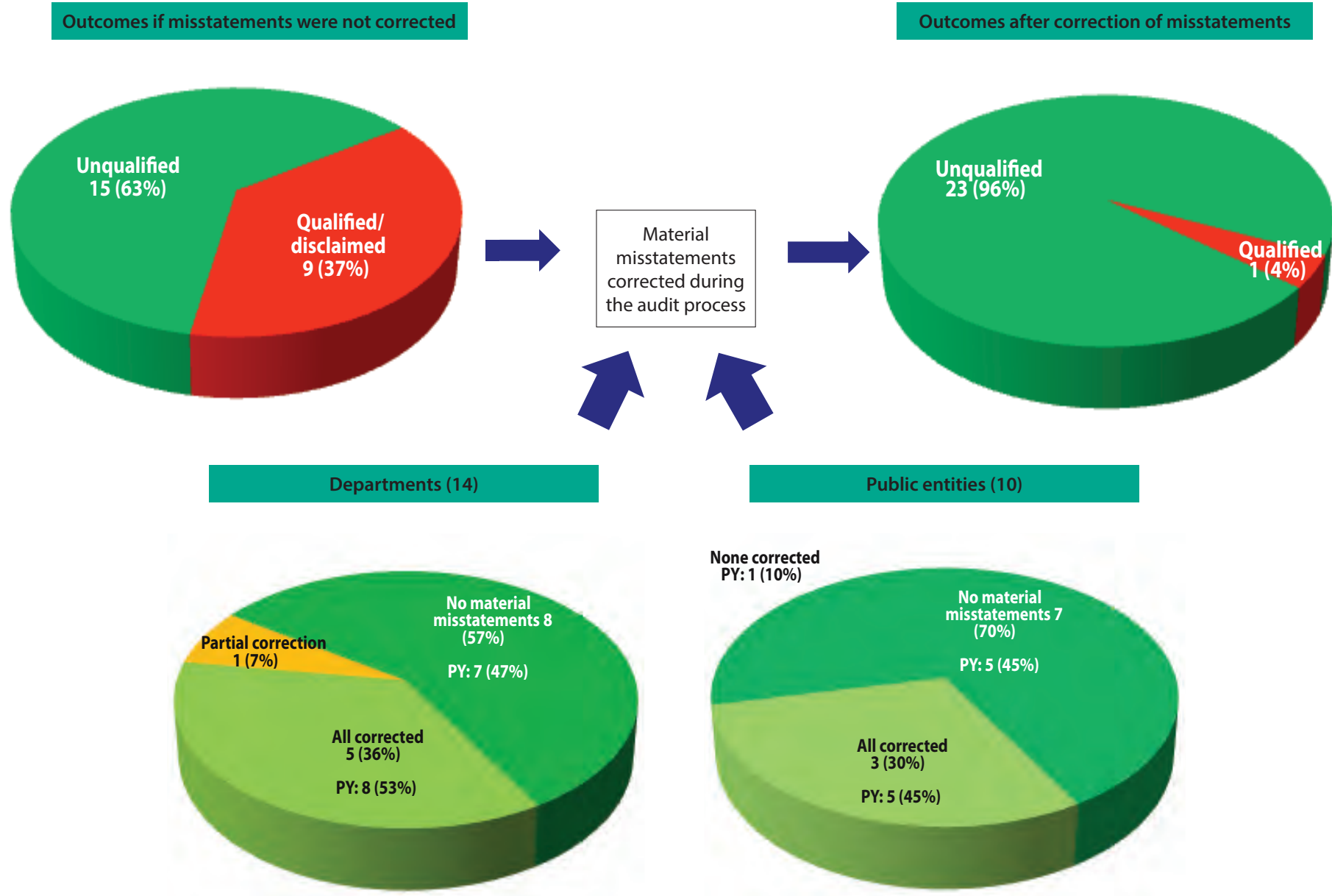
As in prior years, many auditees submitted financial statements that contained material misstatements in one or more areas. Eight (57%) departments and seven (70%) public entities submitted financial statements that required no material adjustments, compared to seven (47%) and five (45%), respectively, in the prior year.

Eight (33%) auditees were able to achieve a financially unqualified audit outcome because they used the opportunity provided by the AGSA to correct all misstatements identified during the audit. One auditee was not able to correct misstatements related to non-current assets (mobile classrooms) and therefore could not avoid a qualification of their financial statements. Misstatements reflected below were reported as material non-compliance for seven of the nine auditees (four departments and three public entities).

The extent of material misstatements in financial statements submitted for audit

purposes for the year under review is depicted in the following figure.

**Figure 5: Material misstatements in financial statements submitted for audit purposes**



## 2.2.2 Financial statement qualification findings

The financial statements of one (4%) auditee, Education, were materially misstated resulting in a qualified audit opinion. The misstatement is in the area of non-current assets and related specifically to mobile classrooms. In 2010-11 one (4%) auditee, Western Cape Housing Development Fund, received a disclaimer of audit opinion.

**Table 5: Nature of qualifications**

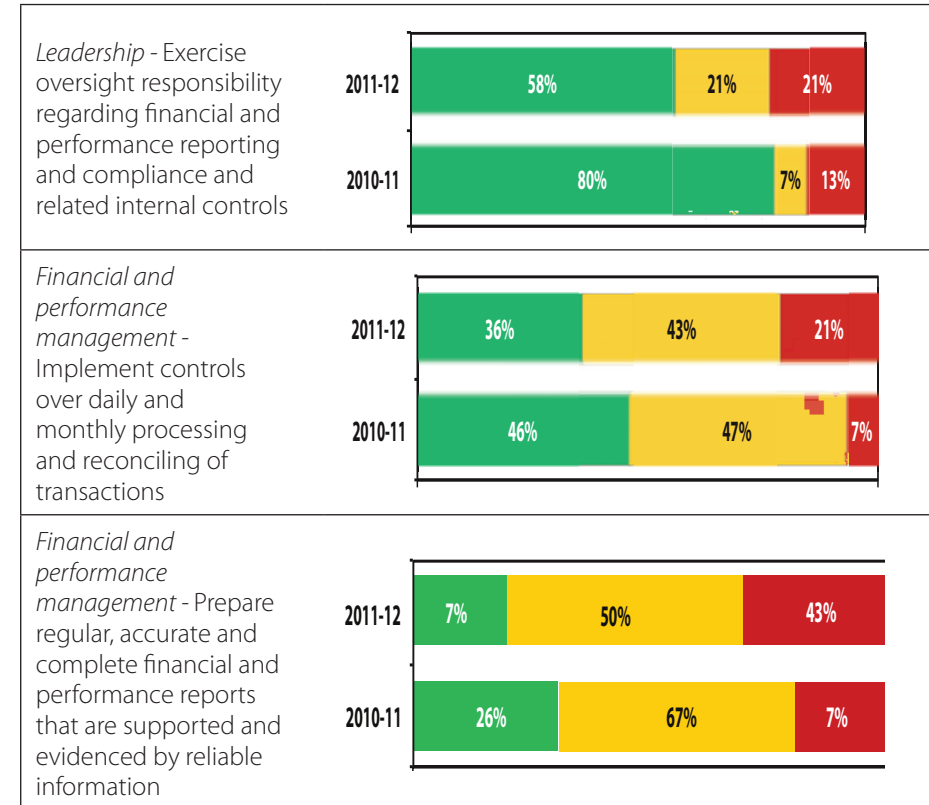
Financial statement qualification areas	Basis for qualification	Reason for qualification
<p><b>Non-current assets</b></p> <p><b>Movable tangible capital assets</b></p>	Completeness, existence and valuation of mobile classrooms could not be confirmed	<ul style="list-style-type: none"> <li>• Incomplete asset register</li> <li>• Inadequate supporting evidence available</li> <li>• This was as a result of inadequate systems in place to account for mobile classrooms</li> </ul>

## 2.2.3 Root causes and best practice recommendations

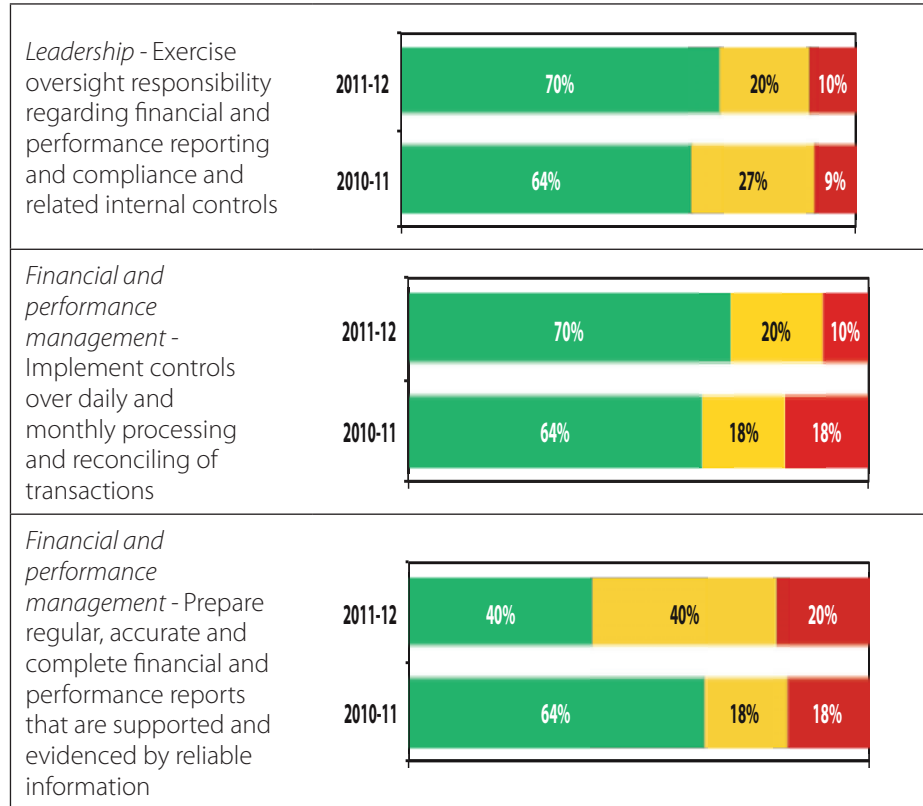
The ability of auditees to produce financial statements that are free from material misstatement is influenced by the existence of a sound system of internal control. The key drivers of these controls are classified under the fundamental principles of (i) leadership; (ii) financial and performance management; and (iii) governance. More information on the specific drivers of internal control, together with recommendations, is provided in section 3 of this report.

The figure that follows indicates the significant deficiencies in the internal control that requires attention from leadership to improve the audit outcomes.

**Figure 6a: Assessment of key drivers of internal control over financial reporting for departments**



**Figure 6b: Assessment of key drivers of internal control over financial reporting for public entities**



**Table 6: Identified root causes and way forward (good practices)**

Aspect	Identified root causes and way forward
<b>Information and processes relied on by leadership</b>	<p>The leadership relies heavily on responses provided by management on the progress made with commitments, action plans and reporting on financial information without ensuring credibility of information. This information is then used to track the status of implementation and to identify any concerns.</p> <p>Specific to the Department of Education’s qualification, the roles and responsibilities were not clearly documented for the parties responsible for accounting for mobile classrooms and the period for which they are responsible for accounting for the mobile classrooms. The mobile classrooms were also not adequately defined to ensure that they are accurately accounted for.</p>
	<p><u>Way forward</u></p> <p>The leadership should accept accountability for ensuring credibility of information provided to them through the use and/or establishment of internal control units. Information should not be relied on without credibility being confirmed.</p> <p>Education should ensure that they define the different types of mobile units and document the responsibility for accounting for these units. They should also perform a full and proper reconciliation between their records and the physical mobile units.</p>
<b>Limitations of information systems used by auditees</b>	<p>The main accounting information system used by departments does not enable accounting for other disclosure matters; however, an additional information system (Logis) is available but not implemented or used appropriately by all departments. This system can assist departments in accounting for accruals and commitments.</p> <p><u>Way forward</u></p> <p>All available information systems should be implemented and/or used appropriately to assist management in the discipline of monthly reporting on matters relating to disclosure items.</p>

Aspect	Identified root causes and way forward
<b>Monitoring by audit committees and internal audit</b>	Audit committees do not insist on confirmation of the credibility of financial information and feedback provided to them for their oversight function. This is partly due to the inadequate capacity of the internal audit units.
	<p><u>Way forward</u></p> <p>Audit committees should insist on credible information being provided to them through the use of internal audit. The internal audit unit should, however, be capacitated adequately to ensure that such requests can be accommodated.</p>

### 2.2.4 Consolidated financial statements

For accountability purposes the PFMA requires each province to prepare and publish a consolidated financial report on the utilisation of its resources to achieve its objectives. To this end, the provincial treasury is required to prepare consolidated financial statements for each financial year in respect of (i) departments, (ii) public entities under the ownership control of the provincial executive of the province, and (iii) the provincial parliament. The PFMA further requires that the Auditor-General audit the consolidated financial statements and submit an audit report on the statements to the provincial treasury concerned within three months of receipt of the financial statements.

However, due to the difference in the basis of accounting, modified cash vs accrual, this is not feasible. As at September 2012 the minister of Finance had not approved a deviation from this requirement of the PFMA. This matter is therefore reported in the AGSA's audit reports as non-compliance with the PFMA.

**Table 7: Status of the audit of consolidated financial statements for the province**

Departments		Public entities	
2011-12	2010-11	2011-12	2010-11
<b>Audit outstanding</b>	Financially unqualified audit opinion with findings on compliance	<b>Audit outstanding</b>	Agreed-upon procedures report issued

The consolidated financial statements for departments were received on 26 October 2012. The consolidated financial statements for public entities for the 2011-12 year were received on 8 January 2013. The late finalisation of the Housing Development Fund impacted on the timely completion of the consolidated financial statements for entities. The anticipated reporting date is 8 March 2013 for both the departments consolidation and the public entities consolidation.

## 2.3 FINDINGS ARISING FROM THE AUDIT OF REPORTING ON PREDETERMINED OBJECTIVES

The PAA requires the AGSA to audit annually the reported information relating to the performance of the auditees against their PDOs. This audit did not focus on the economic, efficient and effective use of resources in achieving service delivery or the quality of service delivery.

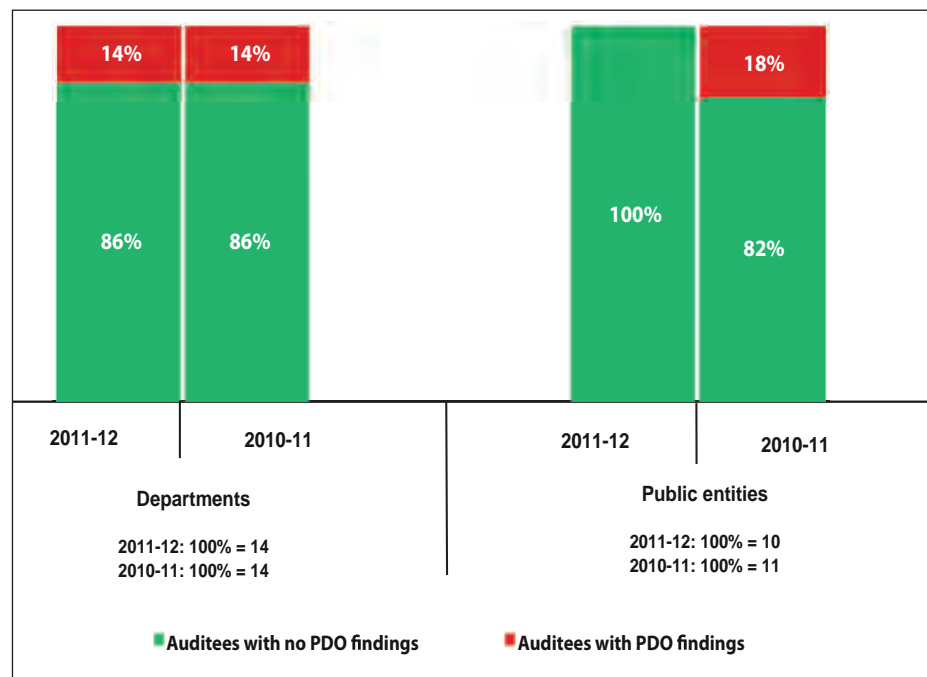
### 2.3.1 Overall outcomes of the audit of reporting on predetermined objectives

Auditees are required to submit their performance report for auditing by 31 May annually. All departments and public entities, with the exception of Government Motor Transport, submitted their reports by the required date. The Western Cape Housing Development Fund is not required to submit a separate performance report as the information is part of the performance report of Human Settlements.

Four auditees (17%) (Community Safety, Transport and Public Works, Social Development and Human Settlements) submitted performance reports that contained material misstatements in one or more areas that required material adjustments. Only two auditees (8%) (Community Safety and Transport and Public Works) were able to avoid audit report findings on PDOs because they used the opportunity provided by the AGSA to correct all misstatements identified during the audit.

Movements in the number of auditees with findings on their reporting against PDOs are depicted in the following figure. The auditees exclude the revenue fund, which is not required to report on PDOs.

**Figure 7: Overall movements in number of auditees with findings on predetermined objectives**



The departments and public entities that have managed to sustain and/or

improve their audit outcomes on PDOs displayed the following good practices:

- Effective quarterly performance reporting processes, which include monitoring and evaluation of the quarterly performance reports and structures for monitoring and review
- Clear standard operating procedures and policies for the collection and collation of information, which set out roles and responsibilities down to the lowest level, i.e. institutionalising processes relating to performance information to ensure that everybody understands the definition of indicators and what is required to report on the indicators
- Internal control units verifying performance information and confirming the accuracy thereof before submission
- Internal audit work performed on the systems and processes of the departments in the social cluster
- Adequate computerised systems on which information can be captured and on which reliance can be placed.

The repeat findings on reliability and additional findings on usefulness for Social Development and Human Settlements were due to the following:

- Social Development
  - Although an action plan was formulated and monitored, it was found to be prepared at a too high level and did not address the control weaknesses with regard to the implementation of the processes involved in the data collection down to the lowest level of staff involved in the collection and collation of performance information and, as a result, the findings in this regard have recurred.
  - Validation of performance data did not occur in all instances as roles and responsibilities were not adequately enforced by programme managers and chief directors so that accountability was accepted for ensuring that the performance data is valid, accurate and complete and that an adequate audit trail exists, thus enabling confirmation.

- Pertinent information supporting the actual performance of the department, such as supporting schedules, registers, databases, application forms, assessments, case numbers, compliance certificates, attendance registers, head counts, etc. was not identified and captured in a form and time frame that support performance reporting as the lower-level staff had different ways of capturing data which did not effectively and efficiently filter into the performance report.
- Processes were not sufficiently detailed to facilitate the preparation of the performance reports, resulting in data that was not a true reflection of actual outcomes.
- Accuracy of the combined results that were received had not been confirmed and it was not possible to obtain confirmed and validated data within the time frames agreed with the department to enable the Auditor-General to report on the PDOs of the department.

Based on the 2010-11 PDO audit outcomes the department committed that the monitoring and evaluation unit would take responsibility for managing the validity, accuracy and completeness of performance information and consolidation of the quarterly performance report. Furthermore, standardised reporting templates for the regional offices were implemented and the regions were required to keep supporting documentation for each outcome. These processes were, however, not robust enough and were not properly managed to ensure quality of information received from the regional offices and consistency in the manner in which it was reported. Furthermore, the person responsible for managing the process had resigned and nobody else accepted responsibility for the performance information. To address the internal control deficiencies identified and the 2011-12 PDO audit outcomes, the head of department (HoD) is putting a performance agreement moderating process in place that will ensure that targets, as well as monitoring roles and responsibilities, are reflected in the performance agreements at all levels of management. Indicator validation processes are also under way, which will form the basis of the process for 2012-

13 performance information reporting. Furthermore, reporting templates have been improved.

- Human Settlements
  - The systems relating to reporting on PDOs were not adequate. Control weaknesses were not analysed and appropriate follow-up actions were not taken to address inadequacies in validation of performance data as the oversight that should be performed by senior management in this regard did not occur in all instances.
  - Roles and responsibilities have not been adequately enforced by senior management to ensure accountability for performance data that is valid, accurate and complete.
  - Although an action plan was formulated to address the internal control deficiencies, it was found that due to a lack of detail with regard to the implementation of data-collection processes the findings in this regard recurred.
  - The material misstatements in the annual performance report were not detected by internal controls due to line managers not taking responsibility for the reported information as well as insufficient review by line managers to ensure that the information is valid, accurate and complete.
  - Furthermore, the validating process of the monitoring and evaluation section did not identify these misstatements.

Based on the 2010-11 PDO audit outcomes, the department commenced with a process to revise their policies and procedures and to appoint someone to head up the performance management unit. This commitment was re-emphasised during key control visits, but did not improve the outcomes of the 2011-12 audit, due to the lateness in finalising policies and procedures and appointing the head of performance management. To address the 2011-12 PDO audit outcomes the department, with guidance from the provincial treasury, has implemented internal control measures in the third quarter to ensure the accuracy and reliability of quarterly performance reports.



### 2.3.2 Findings on predetermined objectives

PDO findings are classified under the main audit areas of usefulness and reliability of information.

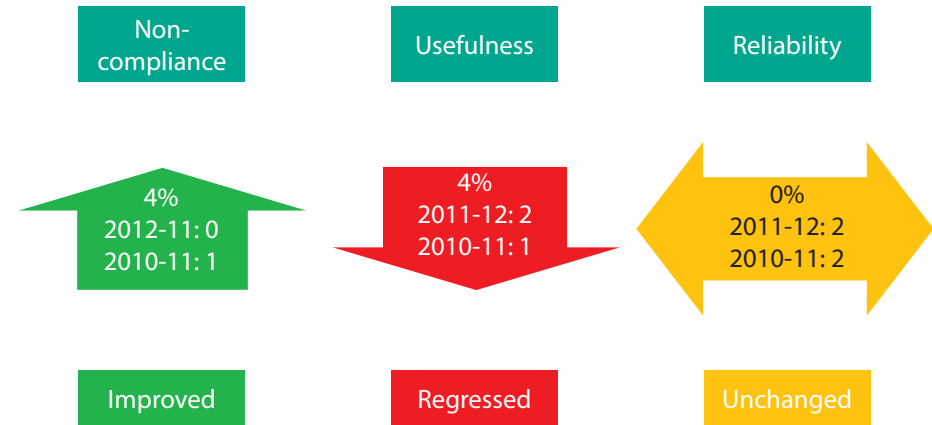
<b>Usefulness</b>	<p>The usefulness of reported information is measured against the criteria of presentation, consistency, measurability and relevance. Findings relate to:</p> <ul style="list-style-type: none"> <li>• reported performance information not being consistent with the objectives and targets</li> <li>• targets not clearly linked to the mandate and objectives of the institution</li> <li>• targets not being specific, clearly identifying the nature and required level of performance, and not being measurable and time bound.</li> </ul>
<b>Reliability</b>	<p>Findings on whether the reported information on performance against PDOs could be traced back to the source data or documentation and whether the reported information was accurate, complete and consistent in relation to the source data, evidence or documentation.</p>

38

Audit work was also focused on compliance with laws and regulations relevant to performance planning, management and reporting.

The following figure depicts overall movements in the different areas of findings on PDOs.

**Figure 8: Overall movements in findings on predetermined objectives [24 auditees reported on (2010-11: 25)]**



The table that follows depicts the progress, or lack thereof, made by auditees in addressing their prior year PDO findings. It does not include the non-compliance findings which are detailed in section 2.4.



**Table 8: Progress made by auditees in addressing prior year findings on predetermined objectives**

Auditee	Movement in addressing 2010-11 predetermined objective findings				
	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Non-compliance
<b>Departments</b>					
Social Development	New	Repeat			
Human Settlements	New	Repeat			
<b>Public entities</b>					
Western Cape Gambling and Racing Board	Addressed				
Western Cape Investment and Trade Promotion Agency					Addressed

**Table 9: Nature of findings on predetermined objectives**

PDO findings category	Specific PDO findings	Nature of findings
<b>Reported information not useful</b>	<ul style="list-style-type: none"> <li>• Measurability</li> <li>• Presentation</li> </ul>	<p>It was not possible to validate the processes and systems that produce the outcome of the indicators, resulting in indicators not being verifiable as valid processes and systems that produce the information on actual performance did not exist. Consequently, the actual performance was not measurable.</p> <p>Major variances between planned and actual achievements were not explained, resulting in inadequate presentation in the annual performance report.</p>
<b>Reported information not reliable</b>	<ul style="list-style-type: none"> <li>• Accuracy</li> <li>• Completeness</li> <li>• Validity</li> </ul>	<p>The reliability of reported information could not be confirmed due to the absence of sufficient appropriate evidence in relation to reported performance against PDOs, source information not being present in a form that is consistent and easily retrievable.</p> <p>Actual reported indicators were not accurate when compared to source information.</p>

Details of specific findings are as follows:

#### **Usefulness of reported information**

The usefulness of reported information is measured against the criteria of presentation, consistency, measurability and relevance. Findings relating to the usefulness of reported information on performance against PDOs refer to the reported performance information not being consistent with the objectives and targets, and whether the targets are clearly linked to the mandate and objectives of the institution, are specific and clearly identify the nature and required level

of performance, and are measurable and time bound. At Social Development it was not possible to validate the processes and systems that produce the outcome of the indicators, resulting in indicators not being verifiable as valid processes and systems that produce the information on actual performance did not exist and, consequently, the actual performance was not measurable. This was because the collection and collation of performance information at this department start at the non-profit organisations which are external to the department. This performance information, in turn, is consolidated at local regional offices and eventually at head office. Although targets are appropriately defined, the manner in which data was collected and collated was inconsistent across the various offices. There are no standardised templates or data is not properly verified before collation, resulting in performance information that is not verifiable and cannot be traced back to source information. This is a systemic problem across all targets, i.e. those set by the provincial department and those prescribed by the national department.

At Human Settlements major variances between planned and actual achievements were not explained, resulting in inadequate presentation in the annual performance report. The department was not in a position to correct the presentation in the annual performance report during the audit because the real root causes/reasons for major variances were not known as adequate monitoring and review did not take place throughout the financial year.

#### **Reliability of reported information**

The audit focused on whether the reported information on performance against PDOs could be traced back to the source data or documentation and whether the reported information was accurate, complete and consistent in relation to the source data, evidence or documentation.

At Social Development instances were noted where the reliability of reported information could not be confirmed due to the absence of sufficient appropriate evidence in relation to reported performance against PDOs and source information not being presented in a form and content that are consistent and easily retrievable. This occurred primarily because of poor record keeping at regional offices, resulting in the regions being unable to produce

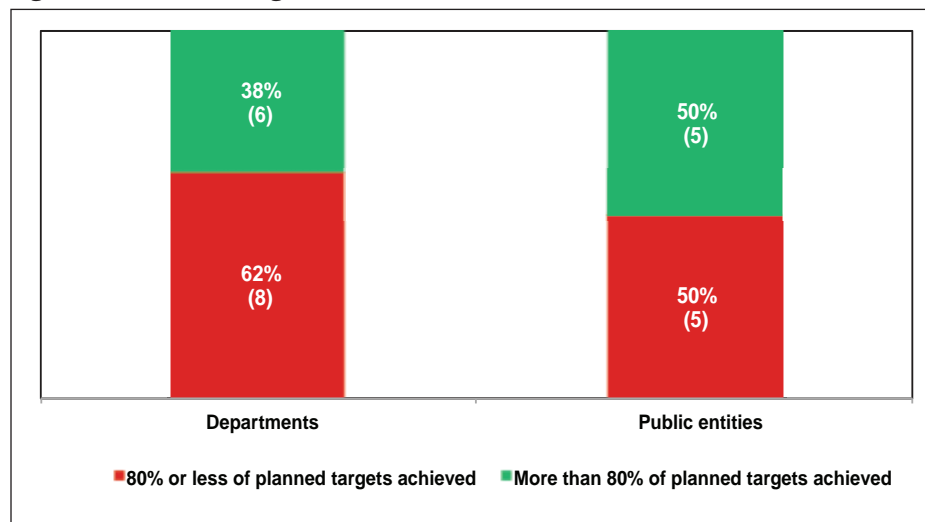
the required information. Instances occurred where information was produced in an unstructured manner, and could then not be traced to an output. It could not be confirmed whether regional and performance managers review the performance information as there was no sign-off at each level to assign responsibility and accountability. Figures were changed to match the planned output without the existence of a proper audit trail.

At Human Settlements challenges were also experienced in obtaining sufficient appropriate evidence from different sources, e.g. from municipalities, to confirm that the information recorded in the annual performance report was complete, as controls at, for instance, municipalities were not adequate to place reliance on the information submitted by the municipalities. This forced the department to make use of payments to suppliers and sign-off at various levels as proof of actual performance.

### 2.3.3 Planned targets not achieved

Although non-achievement of targets did not constitute a finding on PDOs, it was reported as an additional matter under the PDO section of the audit reports. The following figure depicts auditees where less than 80% of the planned targets were achieved during the financial year:

**Figure 9: Planned targets not achieved**



Eight (62%) departments and five (50%) entities did not substantially achieve all their targets as reported in the annual performance reports thereby negatively impacting on service delivery. This includes the following departments where service delivery is crucial: Education, Health, Human Settlements and Transport and Public Works.

The above figure excludes Social Development as reliance could not be placed on the reliability and usefulness of the reported performance information.

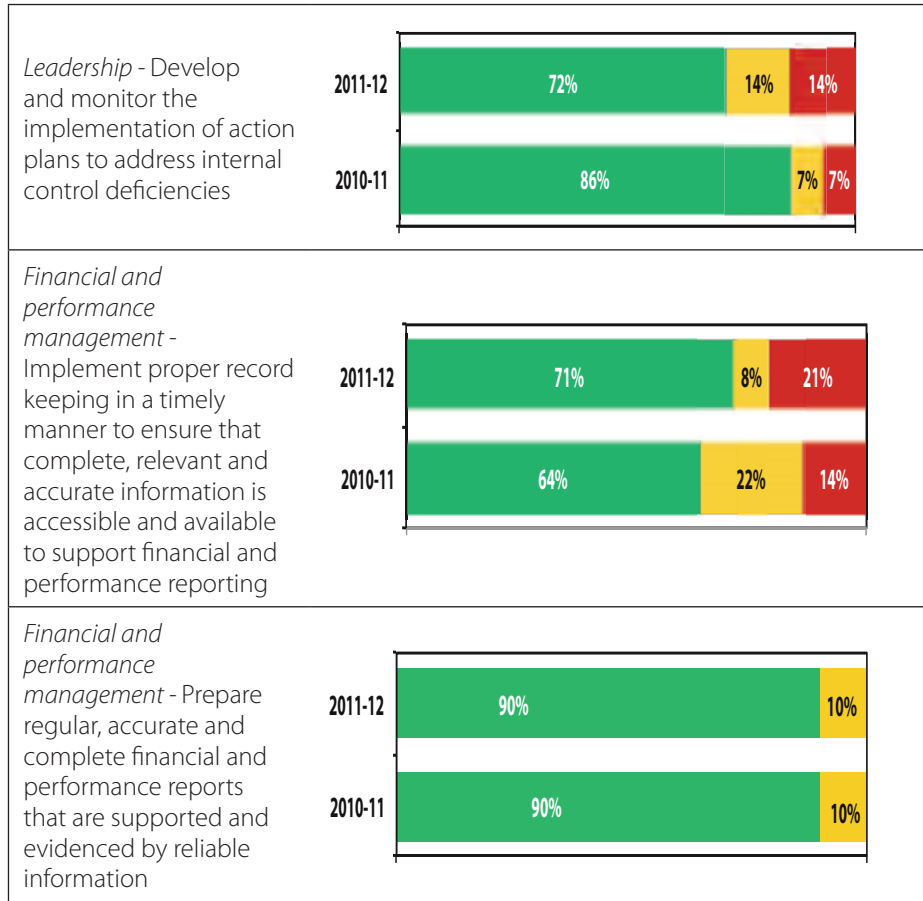
### 2.3.4 Root causes and best practice recommendations

The ability of auditees to meet the legislated requirements and satisfy the prescribed criteria related to reporting on PDOs (service delivery) is influenced by the existence of a sound system of internal control. The key drivers of these controls are classified under the fundamental principles of (i) leadership; (ii) financial and performance management; and (iii) governance.

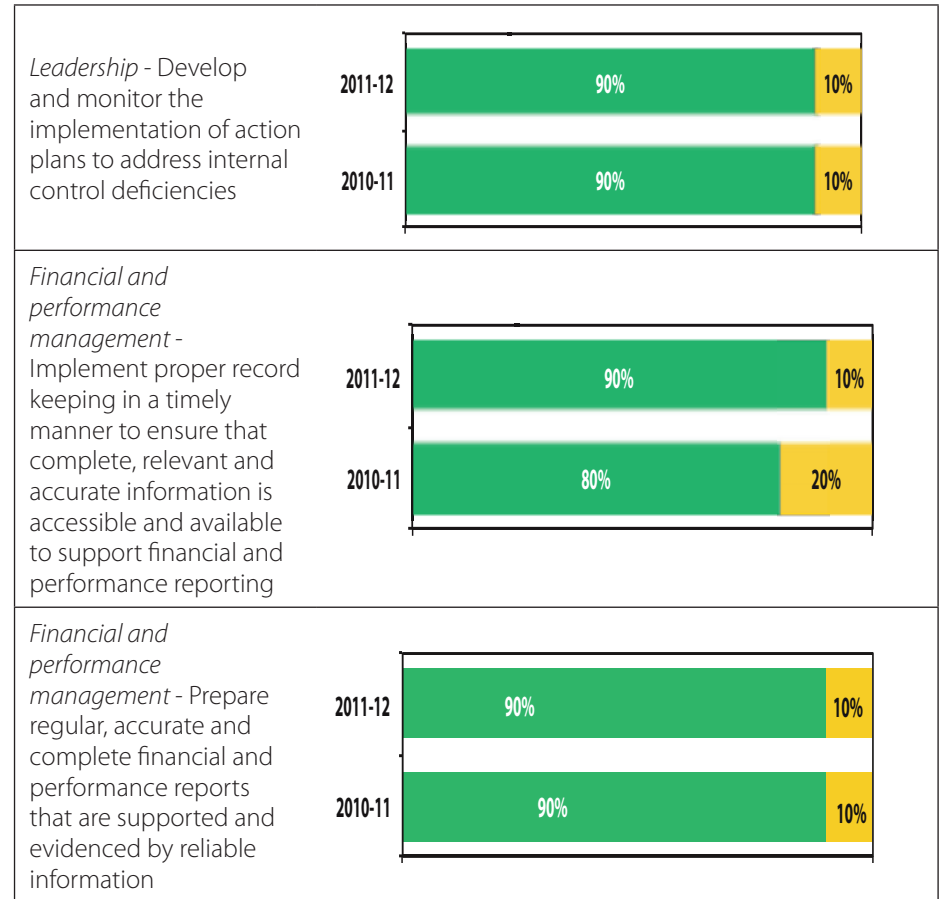
More information on the specific drivers of internal control, together with recommendations, is provided in section 3 of this report.

The figure that follows indicates the significant deficiencies in the internal control that require attention from the leadership to improve the audit outcomes.

**Figure 10a: Assessment of drivers of internal control – reporting on predetermined objectives for departments**



**Figure 10b: Assessment of drivers of internal control – reporting on predetermined objectives for public entities**



Identified root causes which gave rise to this assessment and the recommended way forward are summarised as follows.

**Table 10: Identified root causes and way forward (good practices)**

Aspect	Identified root causes and way forward
<b>Formal planning for service delivery and performance reporting</b>	Two of the key root causes identified for departments and entities not achieving the targets set are auditees not considering relevant systems and evidential requirements during the annual strategic planning process and indicators and targets not being suitably designed during the strategic planning process.
	<p><u>Way forward</u></p> <p>Increased focus should be placed on the setting of targets to ensure that targets are set with due consideration of realistic projections and realistic assessment of demand for services being rendered. Over years, accurate baseline information must be accumulated to inform the aforementioned. Furthermore, performance targets should be selected based on the results of research and programme evaluations.</p>
<b>Systems and processes</b>	<ul style="list-style-type: none"> <li>• Inadequate systems relating to reporting on PDOs.</li> <li>• Processes were not sufficiently detailed to facilitate the preparation of the performance reports, resulting in data that was not a true reflection of actual outcomes.</li> <li>• Validation processes performed by the monitoring and evaluation section did not identify misstatements.</li> <li>• Action plans lack detail with regard to the implementation of the data-collection processes and as a result the findings in this regard have recurred.</li> <li>• Control weaknesses are not analysed and appropriate follow-up actions are not taken to address inadequacies in validation of performance data.</li> </ul>

Aspect	Identified root causes and way forward
<b>Systems and processes</b>	<p><u>Way forward</u></p> <ul style="list-style-type: none"> <li>• Clear standard operating procedures and policies for the collection and collation of information, which set out roles and responsibilities down to the lowest level, i.e. institutionalising processes relating to performance information to ensure that everybody understands the definition of indicators and what is required to report on the indicators.</li> <li>• Adequate computerised systems on which information can be captured and on which reliance can be placed.</li> <li>• Internal control units verifying performance information and confirming the accuracy thereof before submission.</li> <li>• The role of the premier, MEC, portfolio committee, provincial treasury, departmental/entity head and senior management, as well as internal audit, should be clearly defined to ensure that performance indicators and targets are appropriately determined. This should include improved timelines to prevent processes being rushed and errors occurring. Clear level of responsibility and accountability must also be defined and consideration should be given to the incorporation of the performance management process in the performance contract of departmental/entity management.</li> </ul>

Aspect	Identified root causes and way forward
<b>Performance management and skills acquisition</b>	<ul style="list-style-type: none"> <li>• Oversight of data validation which should be performed by senior management did not occur in all instances.</li> <li>• Roles and responsibilities have not been adequately enforced by senior management to ensure that accountability is accepted to make sure that performance data is valid, accurate and complete.</li> <li>• Line managers are not taking responsibility for the reported information and do not adequately review the information to ensure that it is valid, accurate and complete, resulting in material misstatements.</li> </ul>
	<p><u>Way forward</u></p> <ul style="list-style-type: none"> <li>• Effective quarterly performance reporting processes, which include monitoring and evaluation of the quarterly performance reports and structures for monitoring and review.</li> <li>• Adequate review and integrity checks need to be performed by all levels of management to ensure that reported performance information is a true reflection of actual performance.</li> <li>• Leadership should enforce strict levels of accountability for verification of reported performance information and perform proper follow-ups for those tasks delegated to lower levels of management. Consideration should also be given to including this in the performance contracts of management.</li> </ul>

Aspect	Identified root causes and way forward
<b>Monitoring by audit committees and internal audit</b>	<p>Internal audit did not, at all departments and entities, perform work on the quarterly/annual performance reports and/or systems and processes underlying performance reporting, mainly due to capacity constraints. Although audit committees perform the functions required by laws and regulations, which include a review of the risks identified for the department, a monitoring function on the actions plans prepared by the department, etc. concern was raised over the effectiveness of the audit committee's evaluation and monitoring function in the absence of independent confirmations by internal audit of the credibility of quarterly and annual performance reports.</p>
	<p><u>Way forward</u></p> <p>The internal audit unit should continue with the reviews they started on the systems and processes and should expand this to validation checks on reported quarterly and annual performance. The establishment or continuance of internal control units to supplement the work being conducted by internal audit is encouraged. This will also enhance the credibility of information submitted to audit committees to perform their oversight role.</p>

During the 2011-12 financial year, a performance audit was conducted on the readiness of government to report on its performance. The focus of the audit was on how government institutions are guided and assisted to report on their performance, as well as the systems and processes they have put in place. The audit was conducted at four provincial departments, viz. the Departments of Health, Education, Transport and Public Works and Social Development. Key findings raised during these audits at two or more of the mentioned departments included the following:

- The department did not have approved policies and procedures for the management of performance information.
- Staff involved in the process of reporting on performance were not held accountable for complying with reporting requirements or for ensuring the usefulness and reliability of reported performance information. Standard performance agreement templates were used as annexures to the Staff Performance Management System. As a result of this, the

individual performance agreements of the staff members involved in the processes of reporting on performance did not take findings from the audit of PDOs into consideration. Furthermore, the job description of these staff members did not incorporate any duties relating to compliance with reporting requirements or the usefulness and accuracy of reported information.

- Staff responsible for the achievement of performance targets were not held accountable for underperformance as the achievement of performance targets was not included in individual performance agreements or performance indicators did not measure performance and were statistical in nature.
- Departments did not determine realistic performance targets. Performance targets were not realistic owing to conservative projections, needs being greater than anticipated and a lack of baseline information. Furthermore, evidence that performance targets were selected based on the results of research and programme evaluations could not be provided.
- Performance indicators did not measure inputs, activities, outputs and outcomes in relation to economy, efficiency and effectiveness. Most of the performance indicators that did not measure performance in terms of economy, efficiency and effectiveness were sector performance indicators which the respective national departments and the National Treasury required the provincial departments to report on. The performance indicators were aligned to gather statistical information and did not report on whether resources were utilised economically, efficiently and effectively to produce the desired outputs and outcomes.
- Departments did not determine the budget required to implement and achieve PDOs. Therefore, departments were unable to monitor and evaluate the correlation between performance implementation (planned versus actual performance) and financial implementation (budgeted versus actual expenditure). No standardised processes were in place to ensure that budgets were aligned to the PDOs. Furthermore, integrated systems that linked budget/financial information to PDOs were not available.

The following recommendations were made on the key findings:

- Departments should include performance measures relating to performance information management and reporting in the individual performance contracts to ensure that staff are held accountable for their allocated functions and for the achievement of performance targets.
- Departments should clearly define the roles and responsibilities of all staff involved in the management of performance information and include these roles and responsibilities in their job descriptions.
- Departments should develop performance indicators that measure inputs, activities, outputs and outcomes in relation to economy, efficiency and effectiveness. Performance indicators should be selected through a systematic approach where:
  - the logical relationship between inputs, activities, outputs, outcomes and the strategic objectives of the department is considered
  - possible performance indicators are classified into performance dimensions.
- the most suitable and useful performance indicators are selected through a formal filtering and rating system to ensure that performance indicators are selected that measure and report on whether resources were utilised economically, efficiently and effectively to produce the desired outputs and outcomes and are not merely for gathering of statistical information.
- departments should, in conjunction with their respective national departments and the National Treasury, develop integrated systems and/or standardised processes to facilitate the linking of performance information with the accounting system/budget, in order for the departments to measure the achievement of performance indicators in relation to financial implementation. This will enable the departments to evaluate the correlation between the planned versus actual performance and its budgeted versus actual expenditure.



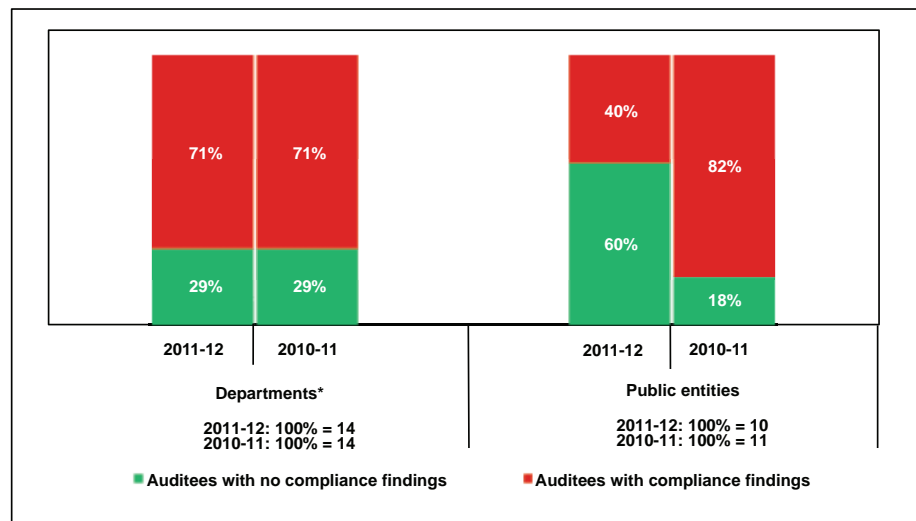
## 2.4 FINDINGS ARISING FROM THE AUDIT OF COMPLIANCE WITH LAWS AND REGULATIONS

The PAA requires auditors of public sector entities to audit on an annual basis compliance with laws and regulations applicable to financial matters, financial management and other related matters.

### 2.4.1 Overall outcomes from the audit of compliance with laws and regulations

Movements in the number of auditees with findings on compliance with laws and regulations are depicted in the following figure.

**Figure 11: Overall movements in number of auditees with compliance findings**



\* The provincial revenue fund is excluded from the analysis

The overall picture of non-compliance for departments remained unchanged with movement within the different categories of non-compliance. The extent of procurement and contract management findings noted for departments decreased due to the implementation and monitoring of action plans where improvements were noted. However, action plans were not adequate to

address root causes in all instances and resulted in repeat findings. As analysed in section 3.2, human resource management regressed in the area of verification processes for appointments and the management of vacancies; however, there was an improvement in key areas such as the management of leave and the institutionalisation of performance management at senior level.

There was great improvement in the area of non-compliance with laws and regulations for public entities mainly due to the adequate implementation of action plans related to interest declarations and the Preferential Procurement Policy Framework Act (PPPFA).

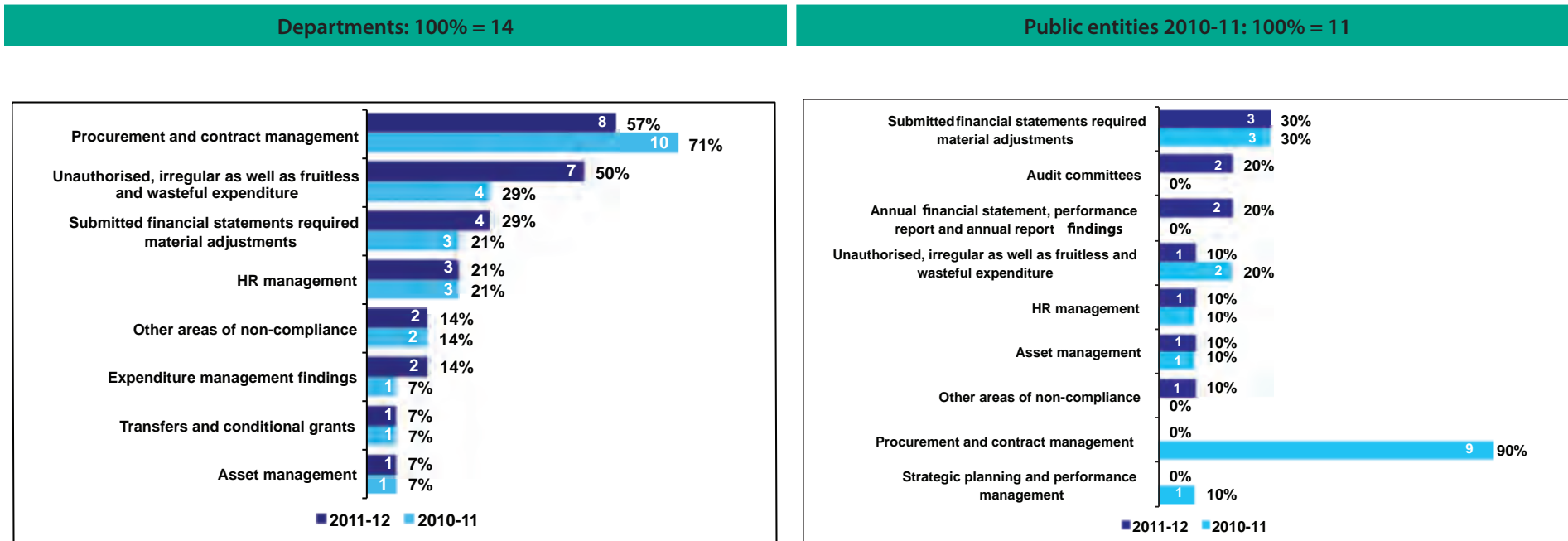
### 2.4.2 Compliance with laws and regulations findings

The procedures performed to obtain evidence that auditees had complied with applicable laws and regulations were limited to the following focus areas:

- Material misstatements in submitted annual financial statements
- asset and liability management
- audit committees
- budgets
- expenditure management
- prevention of unauthorised, irregular and fruitless and wasteful expenditure
- financial misconduct
- internal audit
- revenue management
- strategic planning and performance management
- transfer of funds and conditional grants
- procurement and contract management
- human resource management and compensation.

The following figure depicts overall movements in the different focus areas.

**Figure 12: Overall movements of findings on compliance with laws and regulations**



The table that follows depicts the progress, or lack thereof, made by auditees in addressing their prior year compliance findings.

**Table 11: Progress made by auditees in addressing prior year non-compliance findings**

Auditee	Movement in addressing 2010-11 non-compliance areas							
	Material misstatement / limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Procurement management	HR management	Expenditure management	Asset and liability management	Transfer and conditional grants	Other areas of non-compliance
<b>Departments</b>								
Agriculture		New	New					
Cultural Affairs and Sport		Addressed	Addressed	New				
Economic Development and Tourism		New	Repeat	Repeat				
Education	New	Repeat	Repeat		New	New		New
Environmental Affairs and Development Planning			Addressed	Addressed				
Health	Addressed	Repeat	Repeat	Addressed		Addressed		
Human Settlements	Repeat	New	Repeat				Repeat	Addressed
Local Government		New	Repeat		New			
Provincial Premier	New		Addressed					
Provincial treasury			Addressed		Addressed			
Social Development			New					
Transport and Public Works	Repeat	Repeat	Repeat	New				Addressed
<b>Public entities</b>								
Cape Medical Depot	Addressed	Addressed	Addressed			Addressed		
Western Cape Gambling and Racing Board			Addressed					
Government Motor Transport	Repeat		Addressed	Repeat				New

Auditee	Movement in addressing 2010-11 non-compliance areas							
	Material misstatement / limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Procurement management	HR management	Expenditure management	Asset and liability management	Transfer and conditional grants	Other areas of non-compliance
The Heritage Western Cape			Addressed					
Western Cape Provincial Development Council			Addressed			New		New
Western Cape Cultural Commission		Addressed	Addressed					
Western Cape Investment and Trade Promotion Agency	New		Addressed					Addressed
Western Cape Language Committee			Addressed					
Western Cape Nature Conservation Board	New	New						

The table that follows details the nature of the most common findings on non-compliance with laws and regulations.

**Table 12: Nature of findings on non-compliance with laws and regulations**

Compliance findings category	Nature of findings
<b>Procurement management</b>	Declarations of interest not submitted by providers. Employees performed remunerative work outside their employment without written permission. Three written quotations not invited and/or deviations not justified.
<b>Unauthorised expenditure, irregular expenditure, fruitless and wasteful expenditure, and losses</b>	Irregular expenditure not prevented.
<b>Material misstatements</b>	Financial statements submitted for auditing included material misstatements and were subsequently corrected to obtain a financially unqualified audit opinion. However, in one instance not all material misstatements could be corrected, resulting in a qualification. Material misstatements for departments mainly related to disclosure items at five departments, with accruals misstated for three departments.
<b>Human resource management</b>	Verification process for new appointments did not always take place as reported for four auditees. The accounting officer did not implement effective measures to ensure that employees do not abuse sick leave at one department and one public entity.

### 2.4.3 Findings arising from the audit of supply chain management

Audits conducted by the AGSA included an assessment of procurement processes, contract management and the related controls in place. To ensure a fair, equitable, transparent, competitive and cost-effective SCM system, the

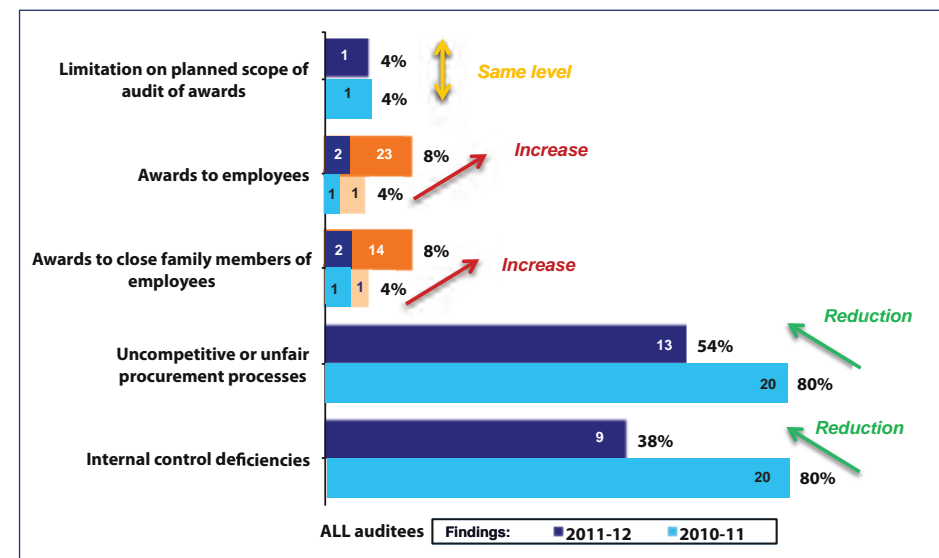
processes and controls need to comply with legislation and must minimise the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices.

Findings arising from the audit were reported in the management reports of 14 (58%) of the auditees, while at eight (33%) of these auditees the findings were material enough to warrant reporting thereof in the auditor’s report.

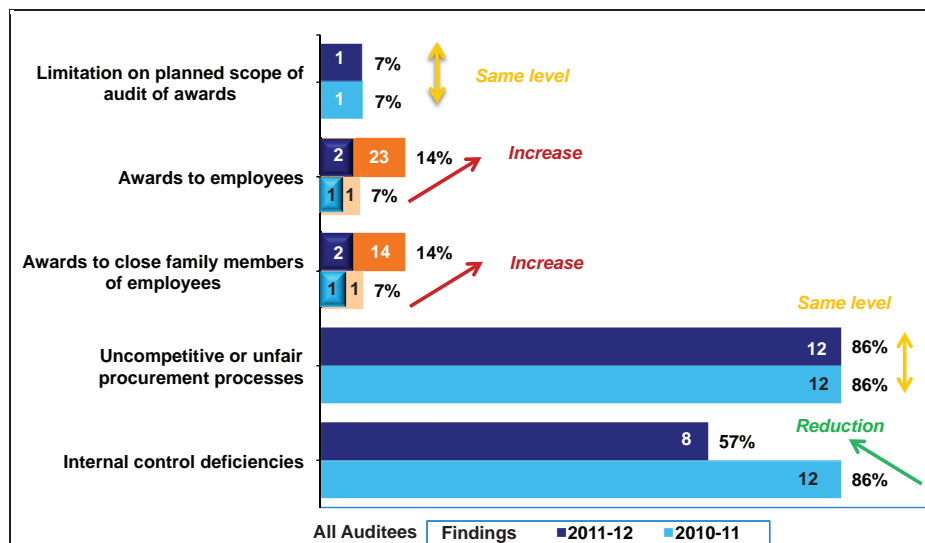
Contracts awarded and price quotations accepted (referred to as “awards” in the remaining sections of this report) to the value of R22,4 billion were tested. However, awards to the value of R95 300 that were selected for auditing could not be audited due to the required information or documentation not being made available by auditees.

The following figure presents a summary of SCM findings, with a comparison to the audit results of the previous year. The percentages are based on the number of auditees reported on.

**Figure 13a: Summary of findings on supply chain management – all auditees**



**Figure 13b: Summary of findings on supply chain management – Departments**



Awards in non-compliance with legislation: 2011-12

Awards in non-compliance with legislation: 2010-11

**Figure 13c: Summary of findings on supply chain management – Public entities**



Awards in non-compliance with legislation: 2011-12

Awards in non-compliance with legislation: 2010-11

Details of the most prevalent findings are provided in the paragraphs that follow.

### 2.4.3.1 Limitations on planned scope of audit of awards

At Health (4%) sufficient appropriate audit evidence could not be provided that three awards to the value of R95 300 had been made in compliance with the requirements of SCM legislation for some of the awards selected for testing. No alternative audit procedures could be performed to obtain reasonable assurance that the expenditure incurred in respect of these awards was not irregular. The name of the auditee is highlighted in red in instances where the scope limitation was also experienced in the previous year.

These limitations were due to documents that were lost by the auditee during internal verification processes and due to fraud by a staff member. The fraud case (R50 500) is still in the process of being investigated and, once completed, appropriate action will be taken. Due to these limitations, the findings reported in the remainder of this section might not reflect the full extent of irregularities and SCM weaknesses at the auditee.

### 2.4.3.2 Awards to state officials and close family members

The audit included an assessment of the interest of officials of the auditee and their close family members in suppliers to the auditee.

Legislation does not prohibit such awards but there are policies and legislation in place to ensure that conflicts of interest do not result in the unfair awarding of contracts or acceptance of unfavourable price quotations. Legislation also requires employees to obtain approval for performing remunerative work outside their employment.

Where interests were identified, compliance with SCM legislation and policies of the auditee was tested. The awards identified were also tested with a view to identifying possible non-compliance or irregularities that could be an indication that decisions or recommendations were unlawfully and improperly influenced.

The detail on the awards made and whether it complied with the legislated requirements is depicted in the table below. The name of the auditee is highlighted in red if awards to officials and close family members were also identified in the previous year.

**Table 13: Awards to officials in the employ of auditees and their close family members**

Auditee	Awards made to					Non-compliance with regard to awards made					
	Officials			Close family members of officials		Supplier not declare interest		Persons with interest failed to disclose it		Other remunerative work not approved	
	Number*	Amount	Positions	Number*	Amount	Number*	Amount	Number*	Amount	Number*	Amount
<b>Departments</b>											
Agriculture				3	R31 655	1	R7 800				
Education	17	R2,7 million	Other employees	13	R4,5 million	13	R4,5 million	17	R2,7 million	17	R2,7 million
Health	6	R3,7 million	Other employees	1	R166 383			6	R3,7 million	6	R3,7 million
Total	23	R6,4 million		17	R4,7 million	14	R4,5 million	23	R6,4 million	23	R6,4 million

\* Number: indicates number of instances

### 2.4.3.3 Uncompetitive or unfair procurement processes

Our audits also focus on whether procurement processes followed were fair and competitive in that they provided all suppliers equal opportunity to compete for public sector contracts and that the process does not unfairly favour some suppliers above others.

It is important that the prescribed processes be followed to ensure that the selected supplier meets the requirements and has the capacity and ability to deliver the goods and services, and that those goods and services are procured at competitive and economical prices.

The procurement processes of 744 contracts (R22,3 billion) and 1 773 quotations (R168 million) were tested at 14 departments and 10 public entities. The most prevalent findings on non-compliance with SCM legislation that resulted in uncompetitive or unfair procurement processes are summarised in the following table – similar findings were identified in the province in the prior year.



**Table 14: Summarised findings on uncompetitive or unfair procurement processes**

Finding	Dep	PE	Nature of finding
<b>Three price quotations not obtained/ deviations not approved or justified</b>	7 (50%)	1 (10%)	<p>A price quotation process is prescribed for procurement of goods and services valued at between R10 000 and R500 000.</p> <p>Three price quotations were not in all instances obtained from prospective providers and the deviations were not approved by a properly delegated official or committee as required.</p> <p>For some transactions auditees made use of a service provider to obtain quotations online. In instances where three quotes were not provided by the system the deviations were not documented and approved as required.</p>
<b>No declaration of interest submitted</b>	7 (50%)	0 (0%)	<p>Specific measures are necessary to ensure that officials do not abuse the system in order to favour their own businesses or those of their family members or associates. In this regard, prospective suppliers are required to declare whether they are in the service of the state or connected to a person in the service of the state. Awards were made to suppliers that did not submit the required declaration.</p>
<b>Preference points system not applied or not correctly applied</b>	2 (14%)	1 (10%)	<p>The preference point system was not consistently applied in the procurement of goods and services above R30 000, as required by Preferential Procurement Policy Framework Act.</p>
<b>Tax clearance not obtained from SARS</b>	6 (43%)	1 (10%)	<p>Awards were made to suppliers without proof from the South African Revenue Service (SARS) that their tax matters were in order.</p>

Dep = departments, PE = public entities

#### 2.4.3.4 Inadequate supply chain management controls

Findings on the most prevalent identified deficiencies in fundamental SCM controls are summarised in the following table – similar findings were identified in the prior year.

**Table 15: Summarised findings on supply chain management controls**

Finding	DP	PE	Nature of findings
<b>Inadequate controls to ensure interest is declared</b>	4 (29%)	0 (0%)	<p>The controls at some auditees were inadequate to ensure that:</p> <ul style="list-style-type: none"> <li>officials declare whether they or their close family members, partners and associates have interests in suppliers to the auditee</li> <li>suppliers declare any connections to persons in service of the auditee or other state institutions.</li> </ul>
<b>Employees without interest in auditee suppliers – additional remunerative work not approved</b>	3 (21%)	0 (0%)	<p>Legislation requires employees to obtain approval for performing remunerative work outside their employment.</p>
<b>Other controls</b>	7 (50%)	1 (10%)	<p>No actions taken to address SCM risk identified.</p> <p>Internal audit did not evaluate SCM controls/ processes and compliance.</p> <p>The fraud prevention plan contained no measures for preventing and detecting fraud in procurement.</p> <p>Roles and responsibilities for management and coordination of SCM unit were not clearly assigned.</p> <p>SCM procedures did not provide measures for prevention of abuse of SCM systems.</p>

DP = departments, PE = public entities

At 16 auditees no inadequate controls were identified. Of the 16 auditees 11 had no SCM findings and the level of findings at the remaining five did not indicate a breakdown of controls.

#### 2.4.4 Unauthorised, irregular as well as fruitless and wasteful expenditure incurred

Legislation requires accounting officers to take reasonable steps to ensure that unauthorised, irregular as well as fruitless and wasteful expenditure is prevented. Although there is an expectation that no such expenditure should be incurred, it is not always possible for an accounting officer to prevent the occurrence thereof, even if all reasonable steps had been taken. In those exceptional circumstances where it does occur, legislation makes it compulsory for auditees to disclose such expenditure in their financial statements and a detailed accountability process is prescribed which could result in disciplinary processes and recovery of monies from liable officials.

Unauthorised, irregular or fruitless and wasteful expenditure was incurred by 18 (75%) of the auditees. The audits further revealed that the accounting officers of eight (33%) of the auditees did not ensure that reasonable steps were taken to prevent this type of expenditure and the irregular or unauthorised expenditure related to the same transgressions as reported in the prior year. This was reported in the auditor's reports as material non-compliance.

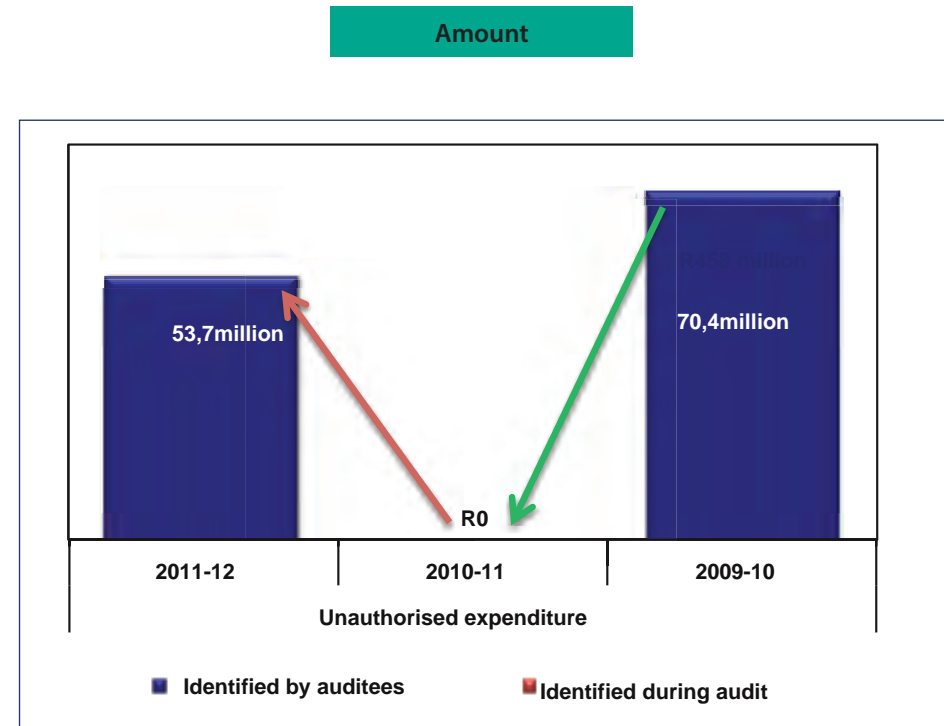
The extent of this expenditure and non-compliance by the accounting officers is indicative of an environment where incurring irregular expenditure has become the norm and not the exception. Reasonable steps are not taken to prevent such expenditure, while the occurrence thereof is also not detected by auditees and is mostly identified by means of the AGSA's audit process.

The total extent of irregular expenditure could not be confirmed due to weaknesses in the systems that identify and record irregular expenditure incurred as disclosed in the financial statements of Education.

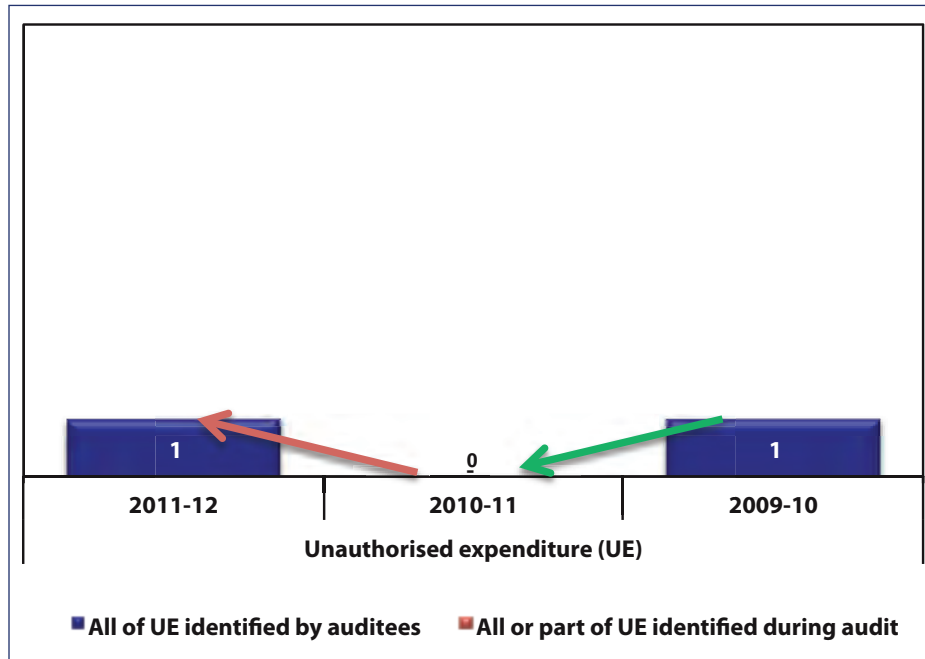
#### Nature of and overall trends in unauthorised expenditure (departments only)

The figure below reflects the three-year trend in unauthorised expenditure.

Figure 14: Three-year trend in unauthorised expenditure



Number of auditees (2011-12: 7%)



The nature of unauthorised expenditure incurred is analysed in the following table.

**Table 16: Nature of and current year movements in unauthorised expenditure**

Nature	Number of auditees	Movement in number of auditees from 2010-11	Amount	Movement in amount from 2010-11
Overspending of votes/ main division within votes	1	100%	R53,742 million	100%

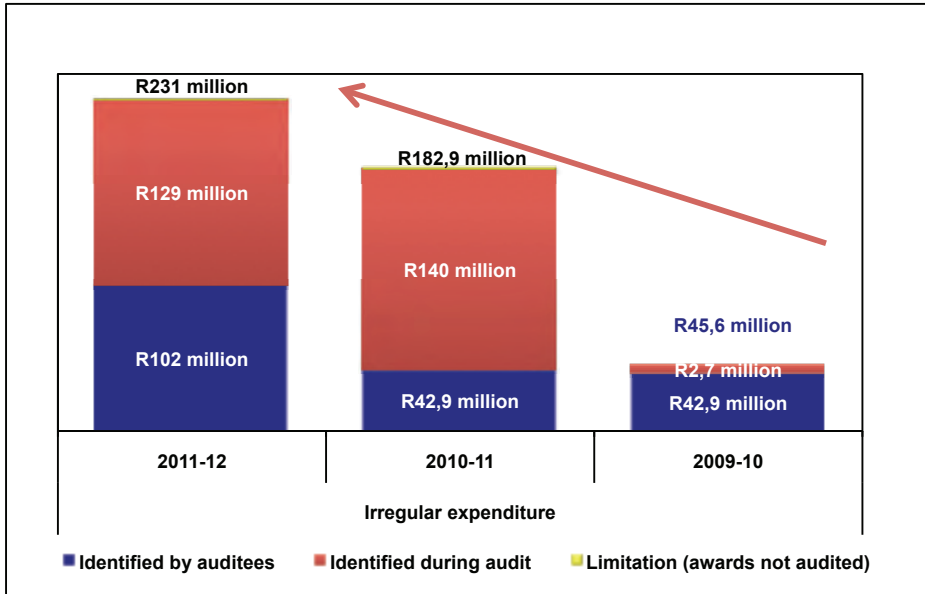
Unauthorised expenditure for the current year and in 2009-10 only relates to Health. The overspending in two programmes resulted from additional overtime paid for emergency medical services and central hospital services and technical challenges experienced with the accounting system during March 2012, hampering their ability to monitor their budget.

**Nature of and overall trends in irregular expenditure**

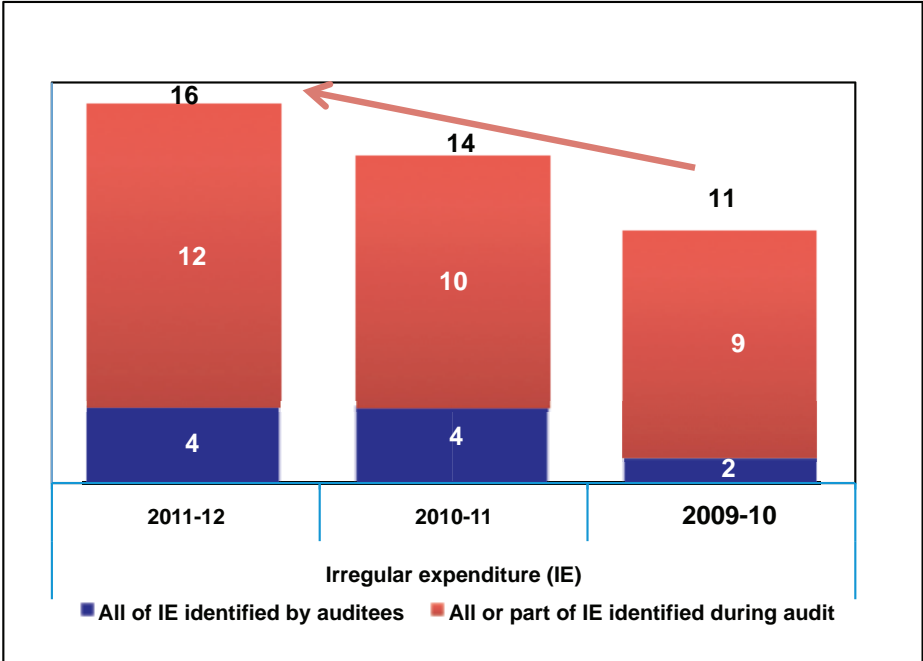
The figure that follows reflects the three-year trend in irregular expenditure.

Figure 15: Three-year trend in irregular expenditure

Amount

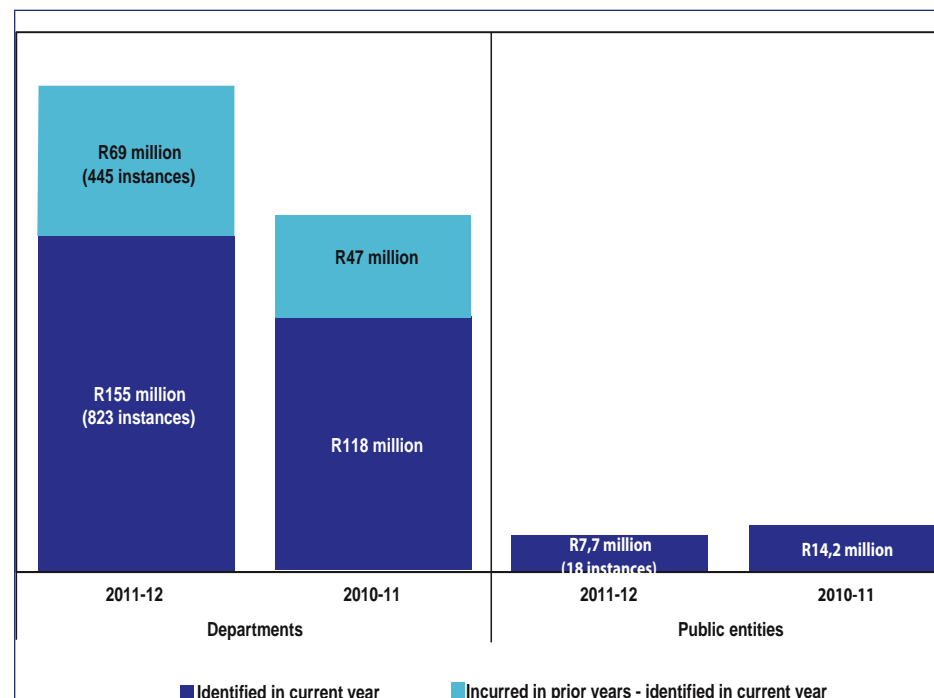


Number of auditees 2011-12:67%



The following figure depicts the extent of the irregular expenditure that occurred as a result of transgressions in the current and previous year and those that occurred in previous years but were only discovered recently.

**Figure 16: Irregular expenditure incurred – current and prior years**



The nature of irregular expenditure incurred is analysed in the following table.

**Table 17: Nature of and current year movements in irregular expenditure**

Nature	Number of auditees	Movement in number of auditees from 2010-11	Amount	Movement in amount from 2010-11
SCM related	15	0%	R227,7 million	42%
Compensation of employees related	3	50%	R0,09 million	99%
Other non-compliance	3	25%	R3,7 million	33%

It is concerning that SCM-related irregular expenditure has increased, particularly insofar as non-compliance has been identified relating to obtaining three quotations, obtaining declarations and tax clearance certificates. This was mainly due to an increase in the instances and rand value of non-compliance matters reported relating to procurement and contract management even though the number of departments and entities with findings in this category decreased since the prior year. Three departments incurred irregular expenditure in excess of R20 million:

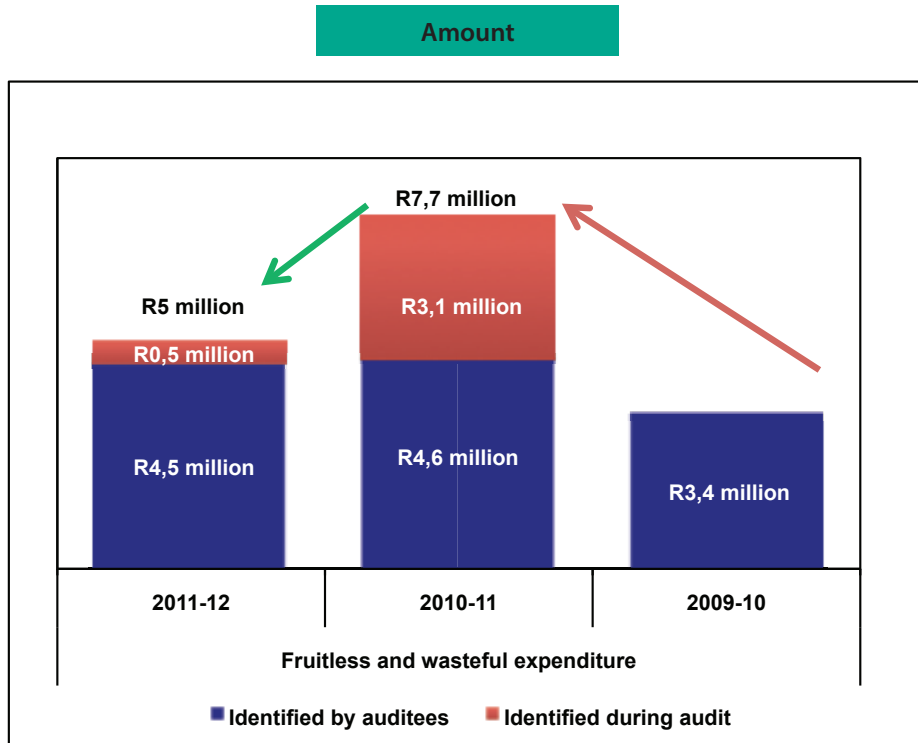
- Health – incurred R74 million related to non-compliance with SCM regulations, including tax clearance certificates not submitted, non-compliance with delegations and valid contracts not being in place.
- Agriculture – incurred R25 million related to goods and services with a transaction value of between R10 000 and R500 000 procured without obtaining at least three written price quotations from prospective suppliers, with deviations not approved by a properly delegated official.

- Premier – incurred R23 million due to the non-declaration of interests, which occurred in prior years but the investigation and identification were completed in the current financial year.

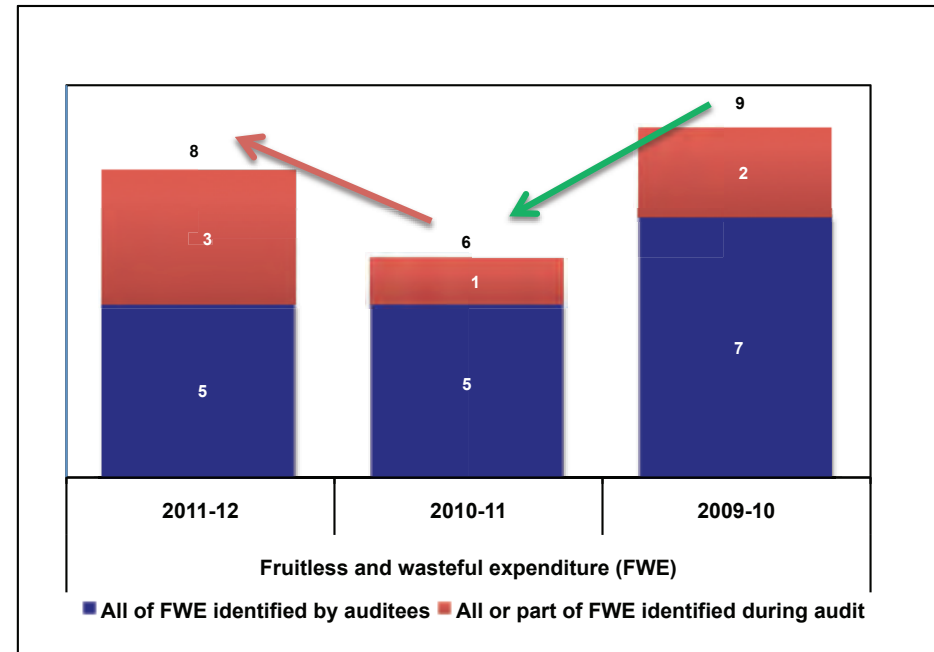
**Nature of and overall trends in fruitless and wasteful expenditure**

The figure below reflects the three-year trend in fruitless and wasteful expenditure.

**Figure 17: Three-year trend in fruitless and wasteful expenditure**



**Number of auditees 2011-12: 33%**



The nature of fruitless and wasteful expenditure incurred is analysed in the following table.

**Table 18: Analysis of fruitless and wasteful expenditure**

Nature	Number of auditees	Movement in number of auditees from 2010-11	Amount	Movement in amount from 2010-11
Incurred to prevent irregular/ loss of further fruitless and wasteful expenditure	1	75%	R3 000	98%
Actual fruitless and wasteful expenditure	8	33%	R4 957 474	30%

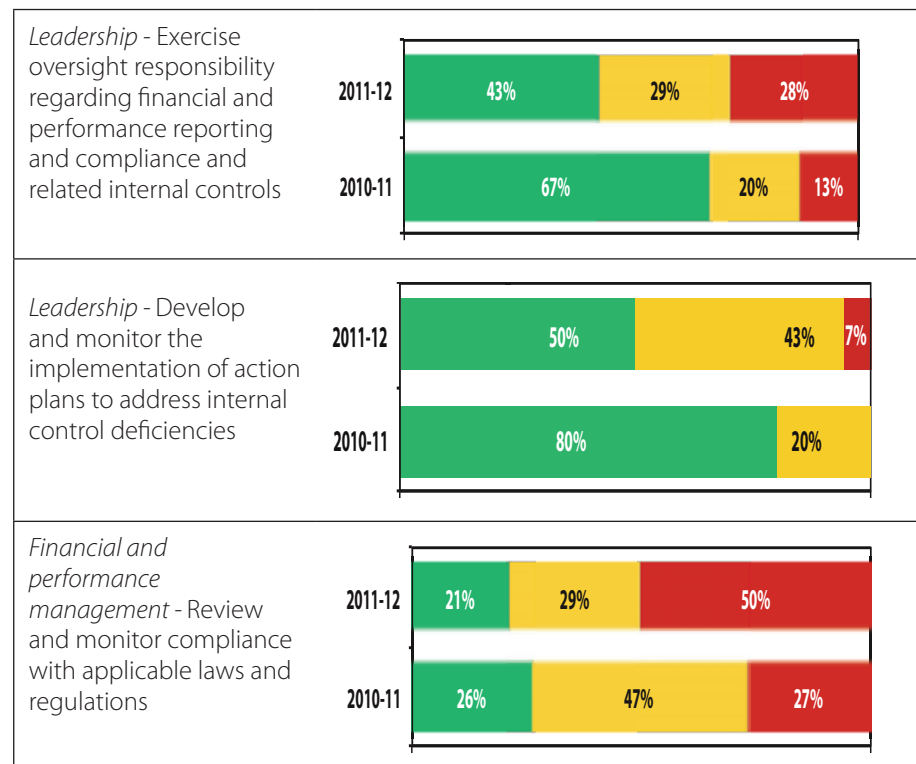
The number of auditees incurring fruitless and wasteful expenditure remained fairly stagnant; however, it is good to see the decrease in the amount of fruitless and wasteful expenditure. Fruitless and wasteful expenditure mostly relates to cancellation fees of training or travel arrangements and interest on overdue accounts.

### 2.4.5 Root causes and best practice recommendations

The ability of auditees to enforce adherence to legislation and to discharge their statutory responsibilities is influenced by the existence of a sound system of internal control. The key drivers of these control are classified under the fundamental principles of (i) leadership; (ii) financial and performance management; and (iii) governance. More information on the specific drivers of internal control, together with recommendations, is provided in section 3 of this report.

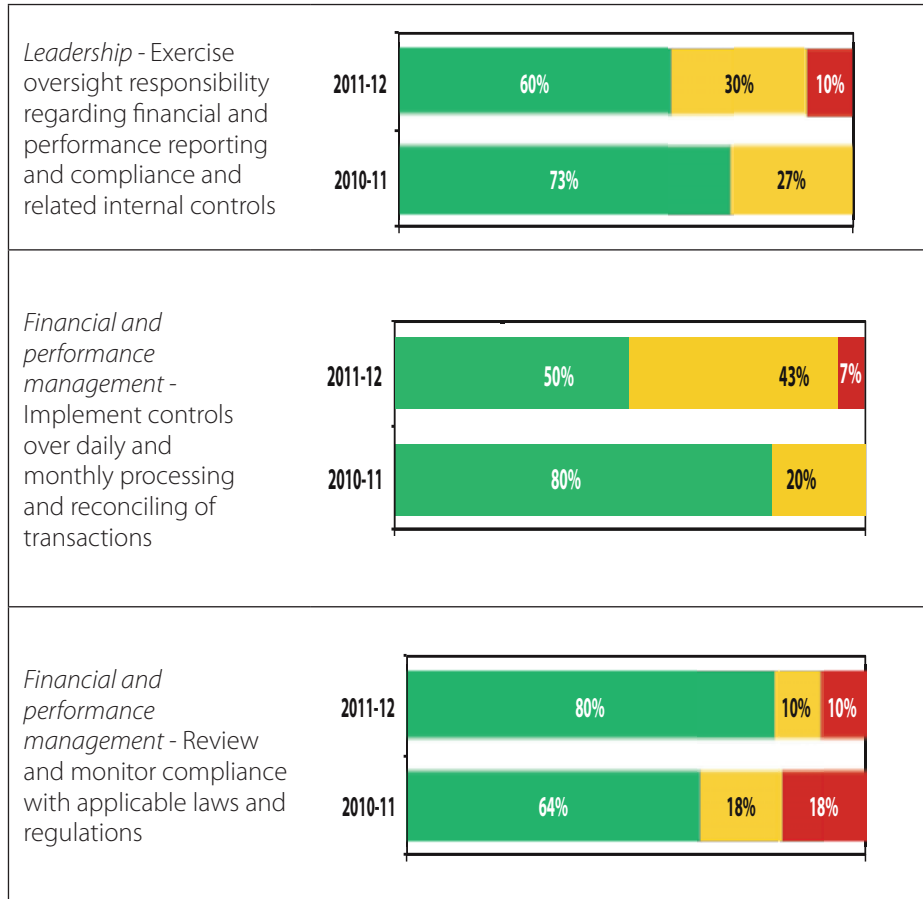
The figure that follows indicates the significant deficiencies in the internal control that require attention from leadership to improve the audit outcomes.

**Figure 18a: Assessment of drivers of internal control over reporting on compliance with laws and regulations for departments**





**Figure 18b: Assessment of drivers of internal control over reporting on compliance with laws and regulations for public entities**



Identified root causes which gave rise to this assessment and the recommended way forward are summarised as follows.

**Table 19: Identified root causes and way forward (good practices)**

Aspect	Identified root causes and way forward
<b>Leadership to set the tone</b>	Despite the province expressing the intention to ensure compliance with laws and regulations, this message may be clouded by communications relating to the streamlining of processes as it is indicated that laws and regulations are too stringent and difficult to comply with. Concerns were raised where unethical behaviour was driven and information was falsified to avoid non-compliance being reported.
	<p><u>Way forward</u></p> <p>When dealing with officials the leadership should ensure that the importance of legislation and a zero tolerance approach to non-compliance is stressed and clearly demonstrated in an uncompromising manner in which transgressions are dealt with. Officials should know that all non-compliance has consequences.</p>

Aspect	Identified root causes and way forward
<b>Oversight and monitoring</b>	<p>There are still concerns over the effectiveness of oversight responsibilities in the area of non-compliance where leadership relies on responses provided by management regarding the monitoring of non-compliance and implementation of action plans. In addition to this, accounting officers remain responsible for compliance with laws and regulations relating to procurement and contract management despite the implementation of a central supplier database and related functions that are monitored by the provincial treasury.</p>
	<p><u>Way forward</u></p> <p>The leadership should place emphasis on the credibility of feedback through the use of internal control units to assist in the regular monitoring of common areas of non-compliance and the effective implementation of checklists to ensure compliance before a transaction is entered into and not only after the payments are made. Roles and responsibilities of departments, entities and the provincial treasury should be clearly defined to ensure adequate accountability for compliance with procurement and contract management laws and regulations.</p>
<b>Effective governance measures</b>	<p>Audit committees did not effectively make use of internal audit units to report on the implementation of action plans as reported by management, resulting in inadequate oversight in the area of non-compliance.</p>
	<p><u>Way forward</u></p> <p>Internal audit units should be adequately staffed to ensure that they can accommodate additional requests by the audit committees to confirm credibility of information reported to audit committees on the implementation and monitoring of action plans.</p>



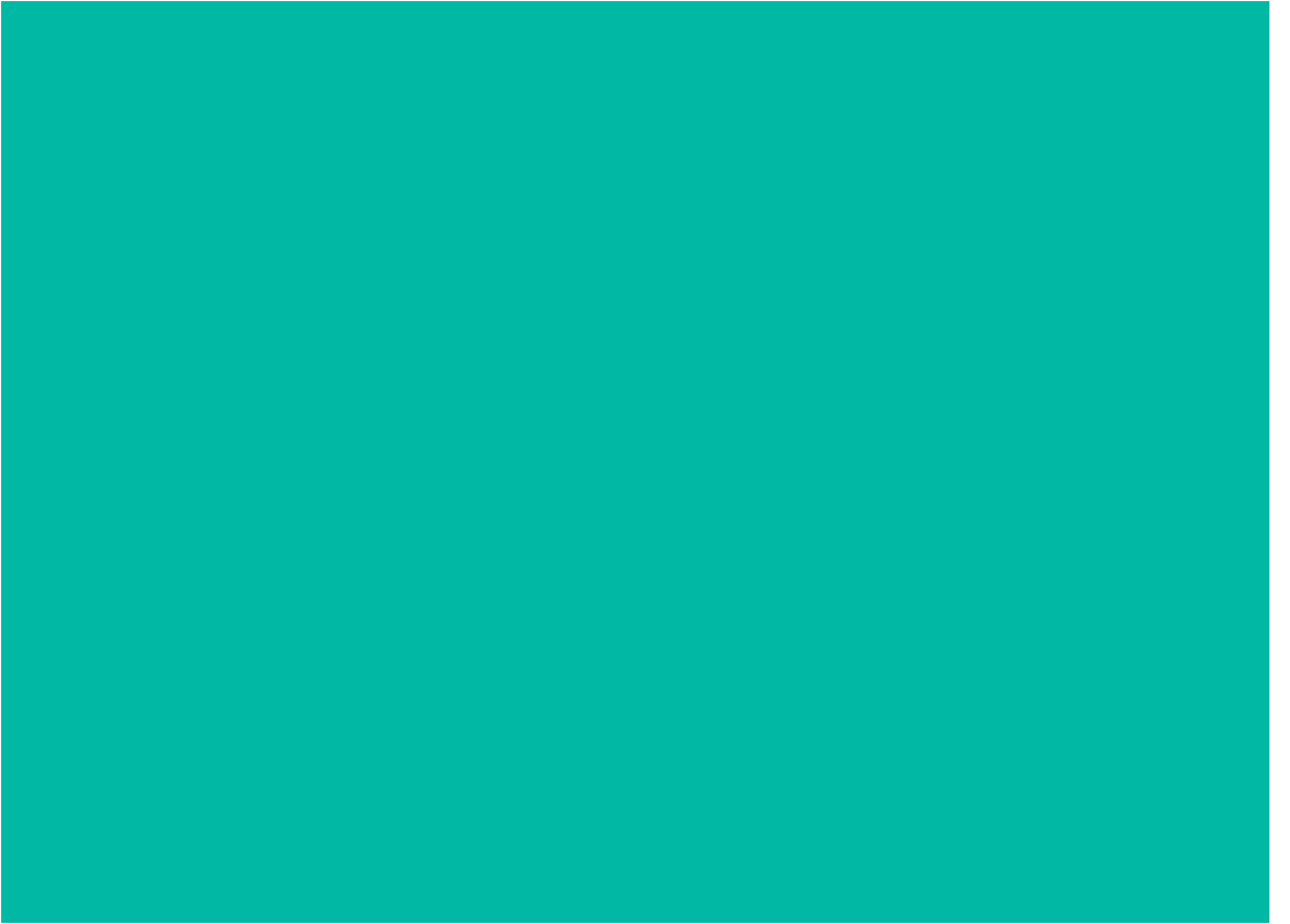
# SECTION 3

## OVERVIEW OF AUDIT OUTCOMES

- 3.1 OVERALL STATUS OF INTERNAL CONTROL
- 3.2 HUMAN RESOURCES MANAGEMENT
- 3.3 MANAGEMENT OF INFORMATION TECHNOLOGY
- 3.4 AUDIT COMMITTEES AND INTERNAL AUDIT



AUDITOR - GENERAL  
SOUTH AFRICA



# SECTION 3

## AUDITEES' SYSTEMS OF INTERNAL CONTROL

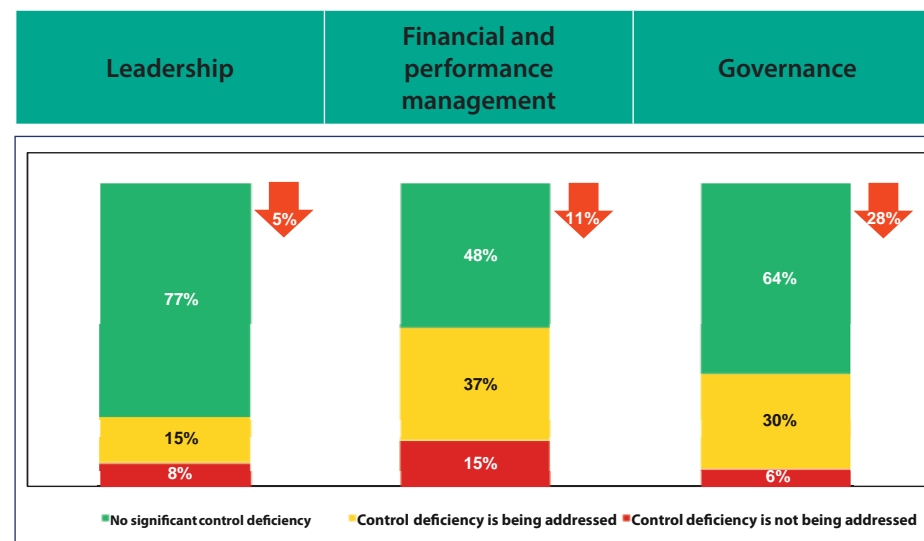
This section of the general report provides a view of the status of the systems of internal controls at the auditees at the time of the audit. The overall status is presented (section 3.1) followed by a specific focus on HR management (section 3.2), information technology management (section 3.3), audit committees and internal audit (section 3.4).

### 3.1 OVERALL STATUS OF INTERNAL CONTROL

A key responsibility of accounting officers/authorities and other officials is to implement and maintain effective and efficient systems of internal control. As part of the audits the auditees' system of internal control is assessed to determine its effectiveness in ensuring reliable financial and performance reporting and compliance with laws and regulations, which in turn will result in a clean audit. For purposes of focusing corrective action, the principles of the different components of internal control have been categorised under leadership, finance and performance management and governance. These are termed the drivers of internal control.

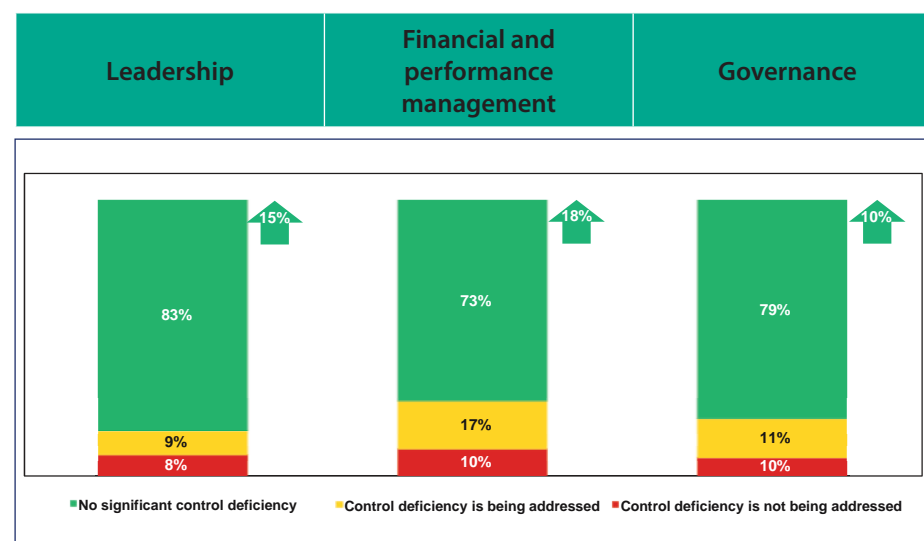
The figure below provides the overall assessment of these drivers at the time of the audit, based on significant deficiencies identified in internal control which resulted in material misstatements in financial and performance reports and findings on non-compliance with laws and regulations.

**Figure 19: Overall assessment of drivers of internal control of departments**



As can be seen from the above figure there has been a decrease in the number of departments with no significant deficiencies in leadership, financial and performance management components and governance.

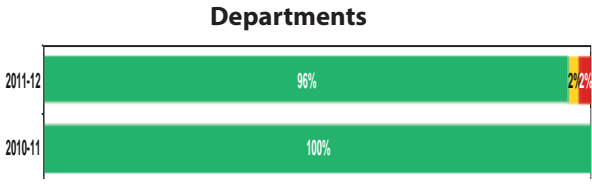
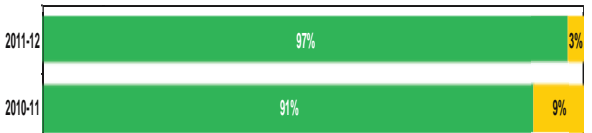
**Figure 20: Overall assessment of drivers of internal control of public entities**

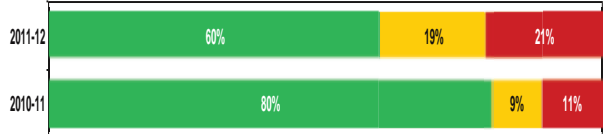
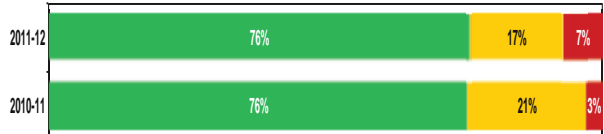
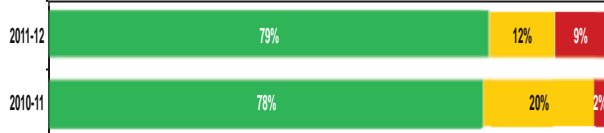
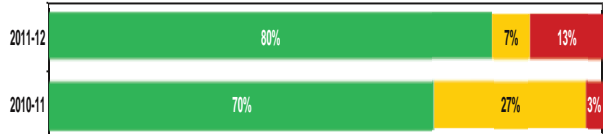


As can be seen from the above figure there has been an increase in the number of public entities with no significant deficiencies in leadership and financial and performance management components, while governance remained the same.

The status of the internal control elements underlying leadership, financial and performance management and governance and movements in the implementation thereof is presented in the following table.

**Table 20: Status of internal control**

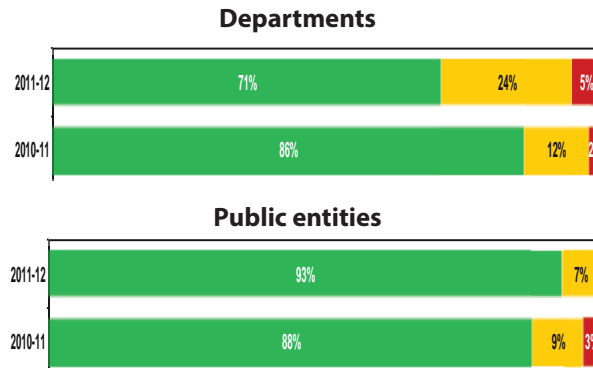
Driver no. 1: Leadership	
Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the entity.	<p><b>Departments</b></p> 
	<p><b>Public entities</b></p> 
	<p>The overall improvement in some entities and the deterioration/stagnation in the audit outcomes of other entities are directly associated with the leadership, setting the tone at the top. There is an intention by the leadership in the province to obtain clean audit outcomes; however, the execution should match the intention. Execution will become a sustainable reality when the leadership holds officials accountable and requires that actions be taken against officials for transgressions or poor performance.</p>
	<p>MECs and accounting officers made themselves available to meet with the AGSA on a quarterly basis and, in some instances, entities have taken ownership of the key control self-assessment. During the quarterly interactions the key roles of MECs, accounting officers and chief financial officers (CFOs) in driving clean audit outcomes were clearly outlined. It is unfortunate that the CFO and a key SCM official were found to be submitting fraudulent deviations to the auditors during the audit of procurement at one of the departments; however, this is evidence of the drive to be clean at whatever cost instead of embedding good practices that will create a sustainable positive outcome.</p>

Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.	<p><b>Departments</b></p> 
	<p><b>Public entities</b></p> 
	<p>In a number of instances MECs and accounting officers have not taken ownership of the key control environment. It is also evident that MECs and accounting officers do not consistently focus on the weaknesses identified in key controls thus leading to inconsistent corrective actions being taken. MECs do not call for regular interaction with the audit committee to provide assurance on the credibility of financial and non-financial information in addition to the annual interaction. Regular interactions will highlight key concern areas and will ensure that the departments keep the MECs abreast of progress with the implementation of the recommendations of the audit committee and internal audit with a view to timeous remedial action. However, it must be noted that some accounting officers for departments and entities such as Health and Cape Medical Depot (CMD) have taken full ownership of the key control environment and have implemented action plans that are reviewed for credibility by the internal control units prior to the commencement of the external audit. The outcomes of these actions can be seen in the improvement of outcomes for CMD and a reduction in the extent of findings at Health. The rest of the auditees are encouraged to follow this great practice by utilising their existing internal control units where these are already in place or establish internal control units as these have been proven to assist the leadership in ensuring that credible information is provided to them in these areas of concern.</p>
	<p><b>Departments</b></p>  <p><b>Public entities</b></p> 



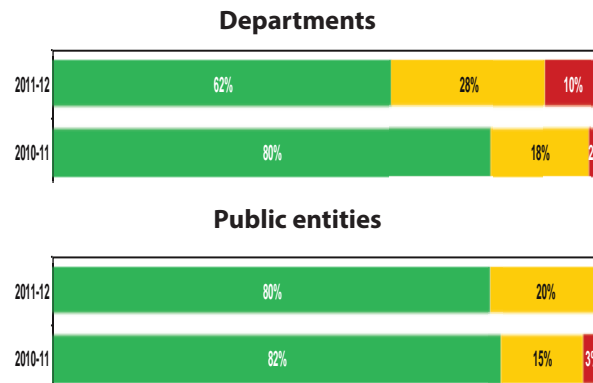
**Section 3.2 provides an analysis of human resource management**

Establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities.



Policies and procedures are fundamental to an internal control environment that supports good governance and produces clean administration. There has been some regression in the area of adequate policies and procedures as currently they do not sufficiently address the policies and procedures required to ensure reliability of performance information and consistent compliance with laws and regulations, especially in the case of the bigger service delivery departments such as Transport and Public Works, Social Development, Education and Human Settlements. It is encouraging to note that at the majority of smaller departments and entities, policies and procedures have been put in place that focus on consistent review to ensure credibility of information.

Develop and monitor the implementation of action plans to address internal control deficiencies.

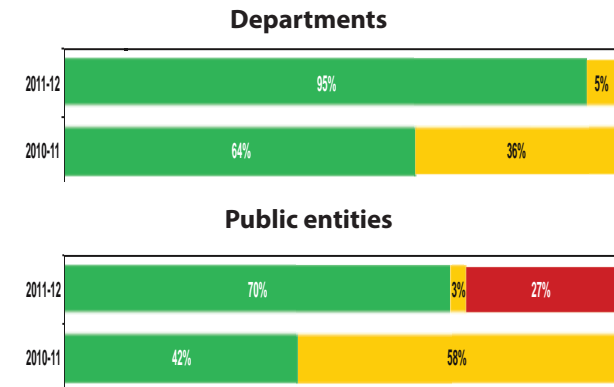


There has been slow progress in addressing prior year findings, especially in the area of predetermined objectives and compliance with laws and regulations. This is an indication that the leadership did not adequately monitor progress in the implementation of action plans to improve audit outcomes.

In one instance the audit outcome regressed due to an action plan that lacked the appropriate level of detail for corrective action.

Audit committees, portfolio committees and internal audit should play a more active monitoring role in this regard.

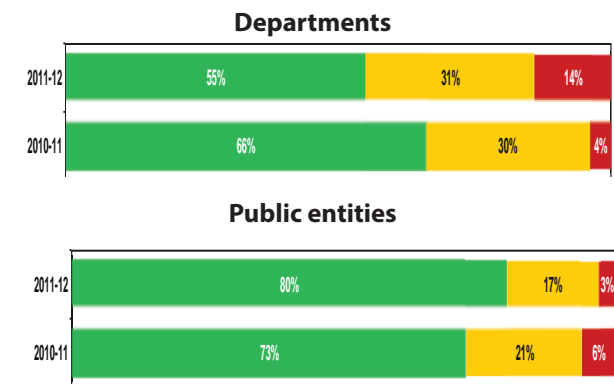
Develop and monitor the implementation of action plans to address internal control deficiencies in the IT environment. Establish an IT governance framework that supports and enables the business, delivers value and improves performance.



**Section 3.3 provides an analysis of the management of information technology**

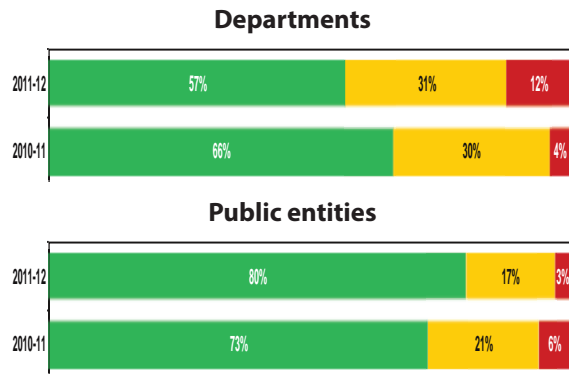
**Driver no. 2: Financial and performance management**

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.



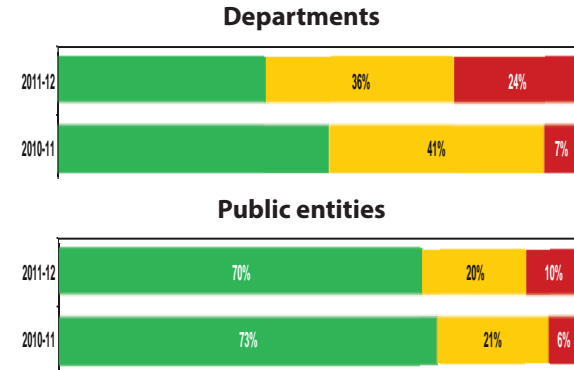
Adequate record keeping has regressed in respect of human resource and financial reporting. Some of the concerns raised are related to human resources where the accessibility of information was difficult for documents kept centrally as significant delays were experienced in a number of instances. Inadequate record keeping related to mobile classrooms resulted in a qualification for Education as they were unable to timeously provide accurate information for audit purposes. Adequate documentation was also not available at Human Settlements to support accurate reporting on other disclosure items in the financial statements, resulting in material misstatements that had to be corrected. Record keeping of information related to the reported performance was also noted as a key area of concern at Social Development where delays were experienced and inaccurate information was submitted for audit purposes.

**Implement controls over daily and monthly processing and reconciling of transactions.**



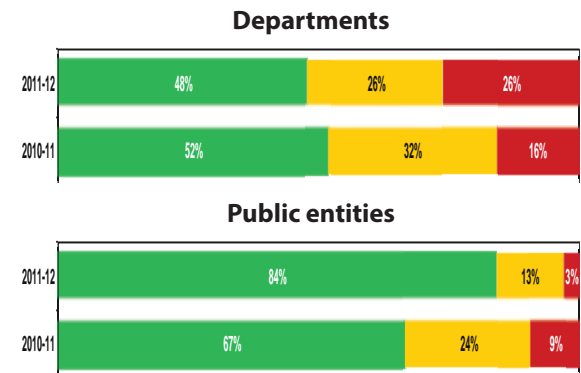
There is inadequate review of supporting documentation forming the basis for the compilation of the financial statements and performance reporting. In addition, a number of misstatements were identified in relation to non-compliance with the financial reporting framework indicating poor processes to ensure compliance. This resulted in material misstatements that had to be corrected after the submission of the financial statements. For Education there was a lack of review and monitoring by management at the district offices to ensure control over monthly reconciling of transactions as the districts did not have adequate processes in place to identify mobile units being used by schools in the relevant districts they controlled.

**Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.**



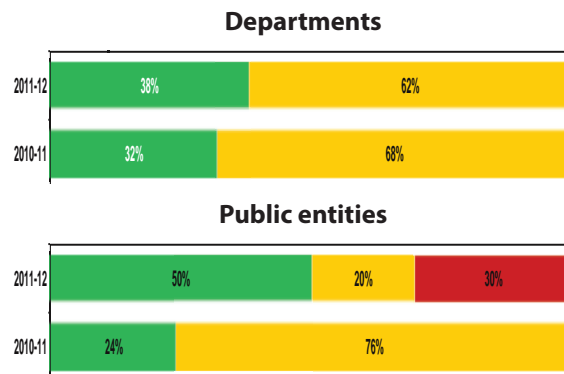
Accurate and complete financial statements are not prepared monthly as encouraged by the AGSA and as a result, various errors in the process of compilation were not detected, leading to material misstatements in the financial statements. Line managers are also not accepting responsibility to ensure that information is accurate, valid and complete. Furthermore, the validation process of the information then submitted for compilation of the financial statements is not adequate as is evident from the misstatements detected through the audit process. In some instances, it was also found that staff members do not fully understand the requirements of the financial reporting framework. Performance reported against predetermined objectives for Social Development and Human Settlements was not based on accurate and consistent supporting documentation, resulting in numerous errors being detected through the audit.

**Review and monitor compliance with applicable laws and regulations.**



The analysis above includes compliance related to financial reporting, reporting on predetermined objectives and other non-compliance. The main area of concern relates to other non-compliance, in particular procurement and contract management and related irregular expenditure. The monitoring of laws and regulations, in particular in the area of procurement and contract management, remained one of the biggest challenges in the province. Management has not ensured that proper guidance is provided to all staff involved in the procurement process and that sufficient training has taken place to ensure compliance with these requirements where a number of findings were reported. However, the extent of findings improved, in particular in the area of procurement and contract management. It is important that managers responsible for compliance understand why regulations have been put in place and that risks of compliance are reduced when adherence is consistent. There has been remarkable improvement for public entities and Health where it was possible through extensive focus placed on this area through the assistance of internal control units. Although the action taken by the leadership at Health did not eradicate all non-compliance, a significant reduction has been noted.

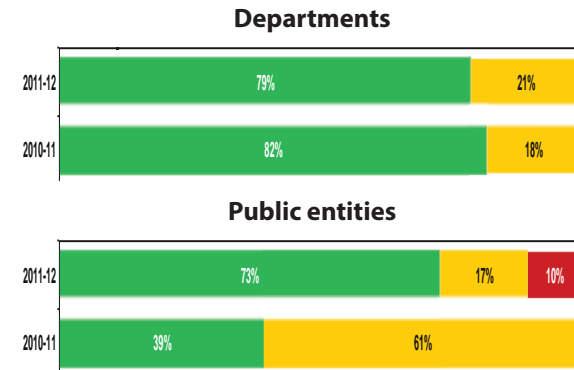
Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information and to address application systems susceptible to compromised data integrity (information systems).



### Section 3.3 provides an analysis of the management of information technology

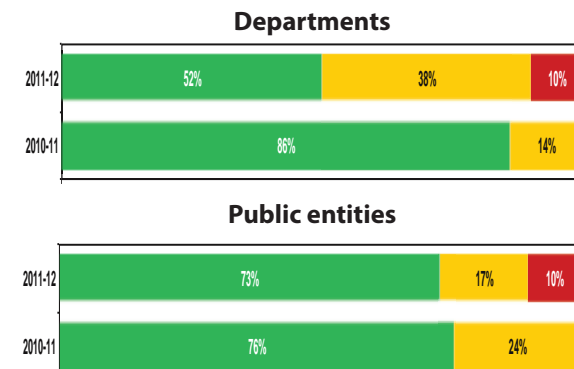
#### Driver no. 3: Governance

Implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.



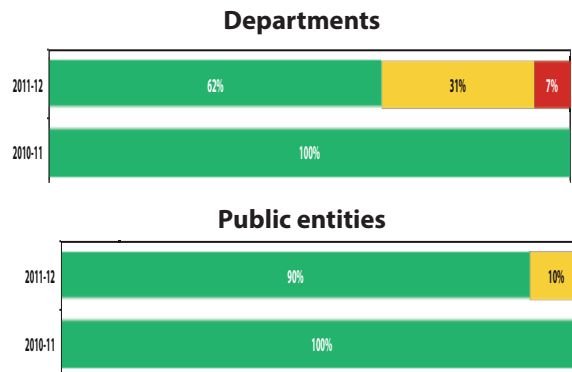
The risk assessment of auditees did not in all instances prioritise the risks in procurement and contract management and, accordingly, this risk was also not included in the risk-based internal audit work plans for the year under review. Transversal risks identified associated with reporting on performance information were not considered as part of the risk assessment.

Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively.



**Section 3.4 provides an analysis of internal audit**

Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight of the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.



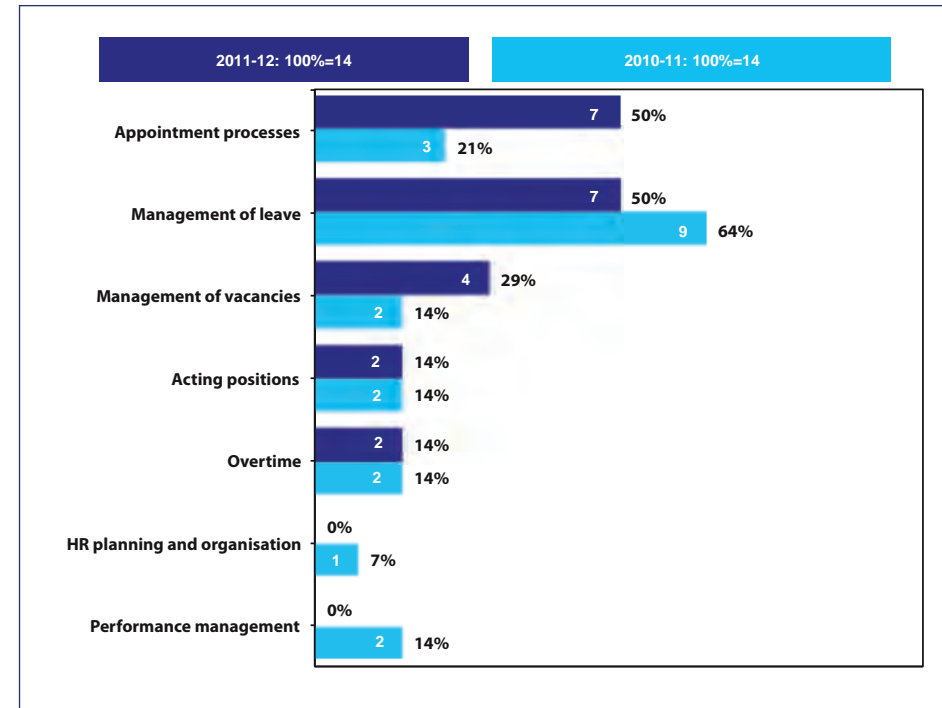
**Section 3.4 provides an analysis of audit committees**

**3.2 HUMAN RESOURCE MANAGEMENT**

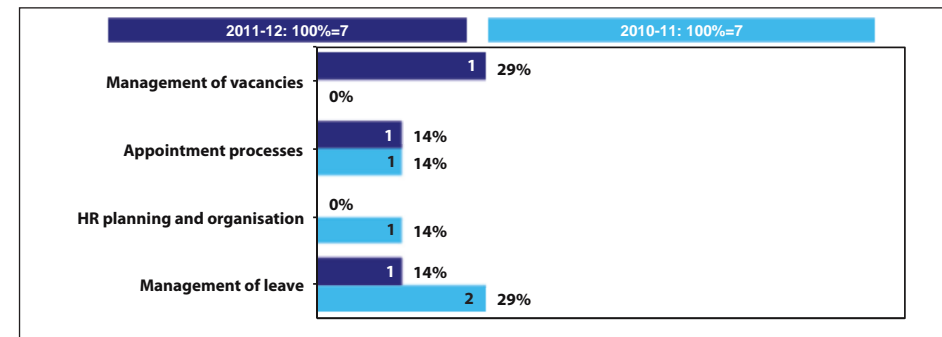
Effective HR management is a key driver of audit outcomes. In this context, HR management is deemed effective if adequate and sufficiently skilled resources are in place and their performance and productivity are managed. Auditees often identify a lack of capacity as the root cause of audit outcomes, which prompted the AGSA to specifically focus on HR management.

The following figure depicts the outcome of an assessment of HR management at auditees.

**Figure 21a: Summary of human resources management findings – Departments**



**Figure 21b: Summary of human resources management findings – Public entities**



**Table 21: Nature of key findings**

Findings	Key findings
<b>Management of vacancies</b>	<ul style="list-style-type: none"> <li>Overall, the management of vacancies deteriorated since the prior year with the overall vacancy rates increasing at both the departments and public entities. At Education and Community Safety senior management vacancies persisted and remained vacant for more than 12 months. At Transport and Public Works positions such as those in the finance department remained vacant for more than 12 months. The overall vacancy levels can impact on service delivery to communities as is the case at Social Development where there is an overall vacancy rate of 19% for social worker professionals.</li> </ul>
<b>Appointment processes</b>	<ul style="list-style-type: none"> <li>The controls around appointment processes that ensure that all new appointments have the required qualifications and that the appropriate selection and approval processes are followed, improved since the prior year with only Economic Development remaining with findings for selection and approval processes. However, the controls around the verification process for new appointments were not consistently effective, resulting in an increase in findings for departments from 21% in the prior year to 50%, and remained stagnant for public entities at 14%.</li> </ul>
<b>Management of leave</b>	<ul style="list-style-type: none"> <li>Findings related to the management of sick leave improved marginally since the prior year at departments, from 64% in the prior year to 50%, and remained stagnant for public entities at 14%. This risk remains a concern as it could possibly contribute to capacity constraints even though the vacancy rate is low and it could possibly affect the measurement and valuation of employee benefit liabilities.</li> <li>Findings related to the management of other leave, however, have decreased significantly as a result of improved monitoring and capturing of leave on the system.</li> </ul>
<b>Acting positions</b>	<ul style="list-style-type: none"> <li>Employees acted in positions for more than 12 months at both Education and Health as opposed to the prior year where Economic Development and Health had such findings.</li> </ul>

Findings	Key findings
<b>Overtime</b>	<ul style="list-style-type: none"> <li>Although there were no findings in the current year relating to written authorisation not provided in advance for overtime to be worked, there was an increase in the number of departments with findings related to employees receiving paid overtime for more than the maximum hours allowed (Health and Agriculture).</li> </ul>
<b>HR planning and organisation</b>	<ul style="list-style-type: none"> <li>It is pleasing to note that that there were no findings in the current year, representing an improvement since the prior year where Transport and Public Works had a finding related to the human resources plan not submitted and approved late.</li> </ul>
<b>Performance management</b>	<ul style="list-style-type: none"> <li>It is pleasing to note that that there were no findings in the current year, representing an improvement since the prior year where the provincial treasury and Agriculture had findings related to the performance contracts of senior managers that were not being signed in a timely manner.</li> </ul>

## Conclusion

### *Management of vacancies*

The management of vacancies has regressed when compared to the previous year. The service level agreements between departments and the Corporate Service Centre (CSC) set out the responsibilities of each party related to vacancies. Departments did not adhere to the requirements of the service level agreement with the CSC, which also did not provide adequate guidance regarding the processes around the filling of vacancies which resulted in the regression. In addition, the HR units did not adequately review and monitor compliance with applicable laws and regulations.

### *Appointment processes*

The appointment process for the year under review also regressed when compared to the previous year. For the year under review seven departments were identified as having deficiencies in their appointment processes. Of these seven, three remained unchanged since the previous year, but there were four additional departments that experienced a lapse in the controls over their appointment processes. The CSC is responsible for the verification processes and

for providing audit evidence related to the processes, while accounting officers should monitor delivery by the CSC in terms of the service level agreements.

These increased findings were as a result of leadership not implementing adequate monitoring and oversight controls to ensure compliance with applicable acts and regulations for the appointment process, and/or inadequate record keeping. There is a need to further clarify roles and responsibilities between departments and the Department of the Premier regarding the centralisation of the human resource function as this was a major contributing factor in the regression, with most departments being unwilling to accept responsibility for outcomes relating to HR matters.

#### *Management of leave*

For the year under review, six departments were identified as having deficiencies with regard to leave administration in comparison to nine departments in the previous year. In comparing the departments that reflect findings in the current year to the nine departments in the previous financial year, seven have shown an improvement in that they reflect no or fewer findings, while two departments regressed, either having increased findings or incurring findings in the current year only. One department remained unchanged.

At Health there was a significant improvement as intensified processes were developed via the action plans. Credible action plans were established in 2010-11 which were implemented for the duration of the 2011-12 financial year. Pre-audits were conducted to identify, rectify and prevent problems.

At Economic Development and Tourism they took responsibility for the monitoring of HR and ensured that the service level agreement (SLA) between themselves and CSC was adhered to.

At Social Development there was an improvement in record management by the department itself, which was inefficient as the department maintained copies of all HR-related documents and did not rely on the CSC. However, they interacted regularly with and monitored the CSC and its processes.

Although the above results reflect an overall improvement in comparison to the previous year regarding the number of findings, indications are that there

was actually an overall regression in this area – except for those departments mentioned above. Eight departments reported in their management reports the additional time and effort required to ensure that HR findings were resolved.

The above deficiencies arose as a result of the departments not implementing sufficient monitoring controls to ensure adherence to all required HR policies and regulations as well as poor record keeping in some cases, which speaks to the centralisation process and the fact that departments are unwilling to accept responsibility for actions and outcomes relating to HR issues.

#### *Public entities human resources*

This is the second year that public entities were subjected to an HR focus area. Of the 11 public entities in the Western Cape, the Western Cape Housing Development Fund was excluded as the audit has not yet been completed and three entities have been excluded from the HR focus area as the HR management function has been performed at the relevant department (Western Cape Cultural Commission, Western Cape Language Committee and Heritage Western Cape).

Findings were raised at two public entities, namely Government Motor Transport (GMT) and Cape Medical Depot (CMD).

GMT had findings on the management of vacancies, the appointment process and leave administration. Management did not ensure that funded vacant positions were filled within 12 months, specific information was not verified for new employees and management did not ensure that medical certificates accompanied sick/incapacity leave taken by employees. These findings stemmed from management not adequately reviewing and monitoring controls to ensure adherence to all required HR policies and regulations. The non-compliance was material.

The CMD reported an increased overall vacancy rate, but as this entity is to be reincorporated into Health as from the next financial year, this was not considered for further comment.

The Western Cape Nature Conservation Board had various findings on leave administration in the previous year and, although these were considered isolated and not material, the entity has addressed the deficiencies by way of

adequate action plans, including leave being controlled by head office, and thus no findings were reported in the current year.

*Going forward*

The main driver of the above findings at departments is the need for further clarification of the roles and responsibilities and improved consistent monitoring of the service level agreements between the departments and the CSC, thus ensuring that proper accountability is assigned and accepted by all the role players.

Consideration should be given to the automation of all leave administration as this would ensure that the processes are streamlined and are approved in a timely manner and will significantly improve the management of leave.

### 3.3 MANAGEMENT OF INFORMATION TECHNOLOGY

#### 3.3.1 Information technology management as a specific key driver of audit outcomes



IT in the province is important to enable the responsibilities of ensuring operational integrity of financial statement and performance information reports and the facilitation and monitoring of service delivery.

IT process to be in place to enable service delivery and safeguarding the provincial information.

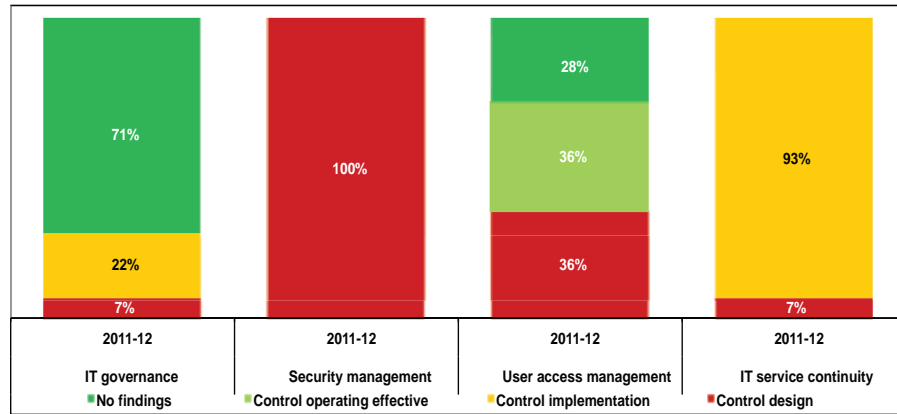
<b>Status of state information</b>	<b>CONFIDENTIALITY</b>	<b>INTEGRITY</b>	<b>AVAILABILITY</b>
	The necessary level of secrecy is enforced for all state information. This will be ensured by auditing the following focus areas: <ul style="list-style-type: none"> <li>• Security management</li> <li>• User access controls</li> </ul>	All state information is authentic, remains unaltered until authorised to change and is complete. This will be ensured by auditing the following focus areas: <ul style="list-style-type: none"> <li>• User access controls</li> <li>• Data analytics</li> </ul>	All state information is ready for use when expected. This will be ensured by auditing the following focus areas: <ul style="list-style-type: none"> <li>• IT continuity</li> <li>• Security management</li> </ul>
<b>Status of key enabling controls</b>	<b>GOOD GOVERNANCE</b>		
	<b>EFFECTIVE MANAGEMENT</b>		
	<b>SECURE ARCHITECTURE/INFRASTRUCTURE</b>		

IT controls for financial systems were evaluated at 14 departments and four public entities, and controls for performance information were evaluated at three sectoral departments, i.e. Health, Education and Human Settlements. Where systems were developed or customised, project governance was assessed during the various phases of the project to ensure that controls were built into the systems prior to implementation.



### 3.3.2 Summary of overall identified weaknesses in the management of financial information systems

**Figure 22: Summary of information systems control weaknesses – Departments**



#### Information technology governance

The Centre for e-Innovation (Cel) at the Department of the Premier designed an IT governance framework and an IT risk management framework that are applicable to 13 of the 14 departments in the Western Cape, with the exception of the provincial parliament. The governance framework has been implemented and is operating effectively at most of the departments, with the exception of Cultural Affairs & Sport, Social Development and Transport & Public Works. No IT governance or IT risk management controls were in place at the provincial parliament. This was due to the department’s lack of skilled IT resources, which was recently addressed by the appointment of an IT manager.

#### Security management

The Cel at the Department of the Premier is responsible for managing network security for all departments in the Western Cape, except the provincial parliament. The migration of all departments from a Novell environment to a Windows Active Directory environment was not fully completed during 2011-

12 and therefore controls had not been implemented to mitigate the security management risks identified in the prior year. Policies for database security and AIX operating system security have not been designed.

The provincial parliament does not fall within the scope of the Centre for e-Innovation and is therefore responsible for implementing its own IT controls. No IT governance or IT risk management controls were in place at the provincial parliament. This was due to the department’s lack of skilled IT resources, which was recently addressed by the appointment of an IT manager.

#### User access management

The provincial treasury is responsible for managing user access to BAS, Persal and Logis for all the departments in the Western Cape, with the exception of the provincial parliament. Policies and procedures for BAS, Persal and Logis have been adequately designed and implemented. Monitoring controls were not operating effectively, with user accounts for certain users not being timeously removed. This was due to departments not fulfilling their responsibility of informing the provincial treasury of users who no longer require system access.

User access policies and procedures for non-transversal systems have not been designed or implemented at 72% of the departments. Reliance on third party vendors to manage access resulted in departments failing to accept responsibility for adequately designing and implementing user access management controls.

#### IT service continuity

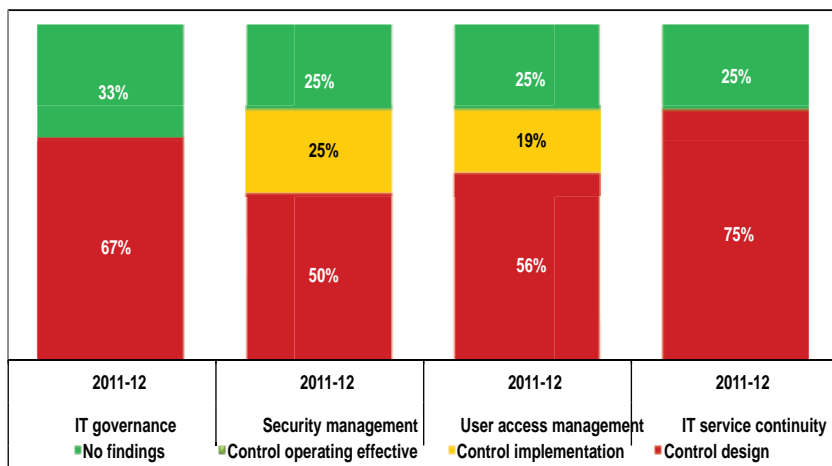
An IT disaster recovery plan has been documented and approved, but has not been implemented. This disaster recovery plan covers all the departments in the Western Cape, with the exception of the provincial parliament. Implementation of the disaster recovery plan is dependent on the availability and allocation of funding within the MTEF process for 2012-13.

The provincial parliament does not fall within the scope of the Centre for e-Innovation and is therefore responsible for implementing its own disaster recovery plan. There is a lack of a formally documented and approved disaster recovery plan as well as back-up procedures. This can be attributed to the executive management not prioritising the design and implementation of a business continuity plan that would provide guidance to IT management on



the formulation of an IT disaster recovery plan.

**Figure 23: Summary of information systems control weaknesses – Public entities**



### Information technology governance

Although an IT governance framework has been approved and implemented by the departments in the province, 67% of the entities have not approved or implemented any IT governance controls. Lack of IT leadership skills has resulted in failure to adequately design and implement IT governance controls. IT governance controls were well designed and implemented at Western Cape Gambling and Racing Board.

### Security management

IT security policies had not been adequately designed and approved for 50% of the entities. This was due to a lack of skilled IT resources within the entities, which resulted in failure to adequately design and implement security management controls. IT security management controls were well designed and implemented at Western Cape Gambling and Racing Board.

### User access management

Three out of four entities did not have user access management policies and

procedures documented or approved. This was due to a lack of skilled IT resources within the entities, which resulted in failure to adequately design and implement user access management controls. User access management controls were well designed and implemented at Western Cape Gambling and Racing Board.

### Information technology service continuity

Seventy-five per cent of the entities did not have an operational IT disaster recovery plan and formally documented backup procedures in place. This was due to a lack of skilled IT resources within the entities, which resulted in failure to adequately design and implement IT service continuity controls. These controls were well designed and implemented at Western Cape Gambling and Racing Board.

## 3.3.3 Audit of performance information systems

The audit focused on compliance with the National Treasury framework 86 of 2007 for managing programme performance information. According to this framework, the national departments have the overall responsibility for designing IT controls to govern the application systems used by the provincial departments to manage predetermine objectives. Three departments, namely Human Settlements, Health and Education, were reviewed for the existence of IT controls to govern application systems and compliance by the provincial departments with these controls. Drivers of IT control weaknesses and the summary are depicted below.

**Table 22: Comparison between national and provincial implementation of IT controls over performance systems**

	Human Settlements			Education			Health		
Development of controls by national	Good			Intervention required			Good		
Implementation of controls by province	Good			Good			Good		
IT weaknesses at provincial level	Security management	User access control	IT service continuity	Security management	User access control	IT service continuity	Security management	User access control	IT service continuity

■ Good     
 ■ In progress     
 ■ Intervention required

### Human Settlements and Traditional Affairs

The national department fulfilled its mandate by designing adequate IT policies and procedures to govern the housing subsidy system (HSS). Provincial departments implemented the IT controls apart from user access controls to manage access to the HSS.

User access for users who were granted access to create and approve transactions was not actively monitored to ensure that the access corresponds with roles and responsibilities. This is due to the lack of accountability on the part of the provincial management there were no provincial policies that require a regular review of user access.

### Department of Education

Intervention is required because the national and provincial departments are not fulfilling their responsibilities. The national department had not designed

adequate IT controls as no guidelines were available for the implementation of IT controls for the Education Management Information System (EMIS). This could be attributed to the national department's lack of accountability in terms of complying with the National Treasury framework. The provincial department also did not proactively request adequate guidance from the national department.

### Department of Health

Good progress was made by the national department as they had developed guidance for the implementation of all the systems used for predetermined objectives, namely the District Health Information System (DHIS), the Electronic Tuberculosis Register (ETR.Net) and the Electronic Drug-resistant Tuberculosis Register (EDR.Net). However, intervention is required as the provincial department did not implement guidance principles, indicating non-compliance as they did not adhere to the guidance provided by the national department. This could be attributed to a lack of leadership accountability at the provincial departments.

### 3.3.4 Status of addressing management commitments

**Table 23: Progress in addressing management commitments – Departments**

Auditee	IT governance	Security management	User access controls	IT service continuity
Agriculture	Good	Intervention required	In progress	In progress
Community Safety	Good	Intervention required	Good	In progress
Cultural Affairs and Sport	In progress	Intervention required	In progress	In progress
Economic Development and Tourism	Good	Intervention required	Good	In progress
Education	Good	Intervention required	Good	In progress
Environmental Affairs and Development Planning	Good	Intervention required	Good	In progress
Health	Good	Intervention required	In progress	In progress
Human Settlements	Good	Intervention required	In progress	In progress
Local Government	Good	Intervention required	Good	In progress

Auditee	IT governance	Security management	User access controls	IT service continuity
Provincial Premiere (Office of the Premier)				
Provincial Parliament				
Provincial Treasury				
Social Development				
Transport and Public Works				
Total	14	14	14	14
Not resolved	1	14	2	1
In progress	3		7	13
Resolved	10		5	

Adequate progress had not been made in addressing previous findings as the risks still remained in three out of the four focus areas even though some corrective measures were taken. This was due to a lack of understanding of roles and responsibilities regarding IT matters and effective oversight, lack of consequences for non-performance or resolution of repeat findings and reliance being placed on the third party service providers to administer and manage user accounts on certain non-transversal systems. IT governance controls have been well designed and implemented.

**Table 24: Progress in addressing management commitments – Public entities**

Auditee	IT governance	Security management	User access controls	IT service continuity
Cape Medical Depot				
Western Cape Gambling and Racing Board				

Auditee	IT governance	Security management	User access controls	IT service continuity
Government Motor Transport				
Western Cape Nature Conservation Board				
Total	3	4	4	4
Not resolved	2	3	3	3
Resolved	1	1	1	1

Adequate progress had not been made in addressing previous findings as the risks still remained in all of the focus areas even though some corrective measures were taken. This was due to a lack of skilled IT resources within the entities which resulted in failure to adequately design and implement IT controls and reliance being placed on the third party service providers to administer and manage user accounts on systems at the entities.

### 3.3.5 Key information technology concerns

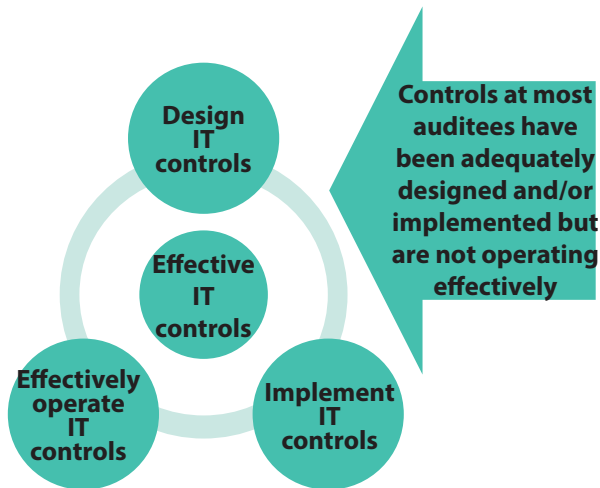
#### Key audit findings on IT controls

- IT governance framework has been designed and implemented but is not operating effectively at certain departments
- Security management controls are inadequately designed and sometimes not implemented
- IT disaster recovery plan has been designed and approved but not implemented
- User access management controls are adequately designed and implemented but are not operating effectively

#### Root causes that impact negatively on the province's IT environment

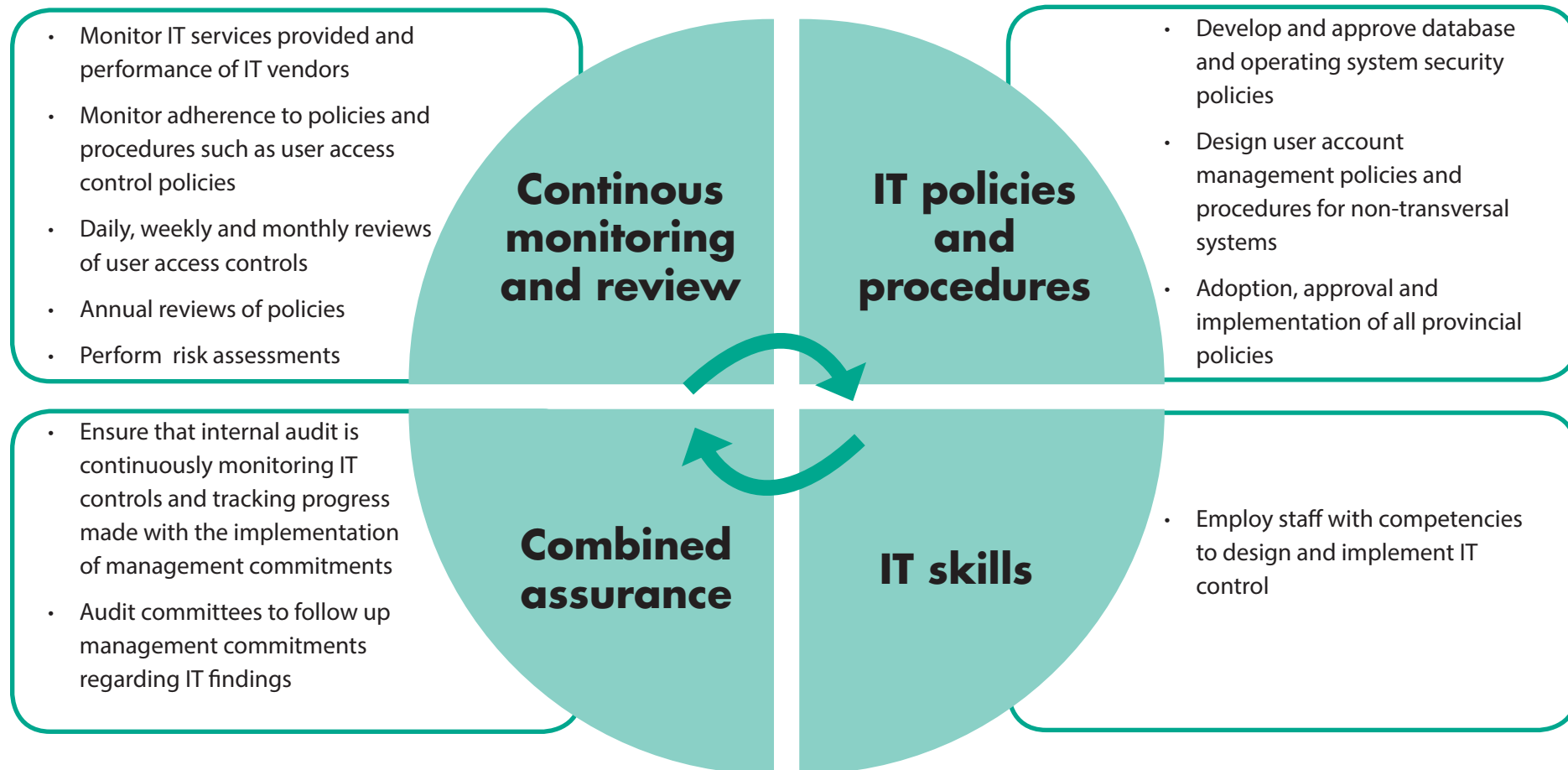
- Lack of understanding of roles and responsibilities regarding IT matters and effective oversight by accounting officers and departments
- Identification of suitable disaster recovery location and implementation of the approved disaster recovery plan is dependent on the availability and allocation of funding within the MTEF process for 2012-13
- Reliance is placed on the third party service providers to administer and manage user accounts on certain non-transversal systems
- Certain non-transversal systems lack functionality to provide detailed user reports

78



### 3.3.6 Quick wins in resolving information technology management weaknesses

Management should ensure that departmental IT committees (DITCOMs) that were reconstituted during the year based on the review of the IT governance framework are fully operational. Management should identify an interim disaster recovery location, ensure offsite storage of all backups and conduct a test of the disaster recovery plan. The accounting officers at each department should also ensure that all provincial policies and procedures are adopted, approved and fully implemented. User access policies and procedures for non-transversal systems at the departments need to be documented, approved and implemented.



### 3.3.7 Good information technology practices in the province

The Cel made IT service managers and workshops available to the departments to facilitate and improve their understanding of roles and responsibilities regarding IT matters and effective oversight by accounting officers.

An IT governance office and IT risk committee were in place within the centre. The ICT strategy is aligned to the business strategy for each department. Cel utilised a structured top-down approach to identify IT risk scenarios at provincial level.

All risks threatening the achievement of departmental objectives were identified during the ICT strategic planning initiative, which is ongoing and repetitive.

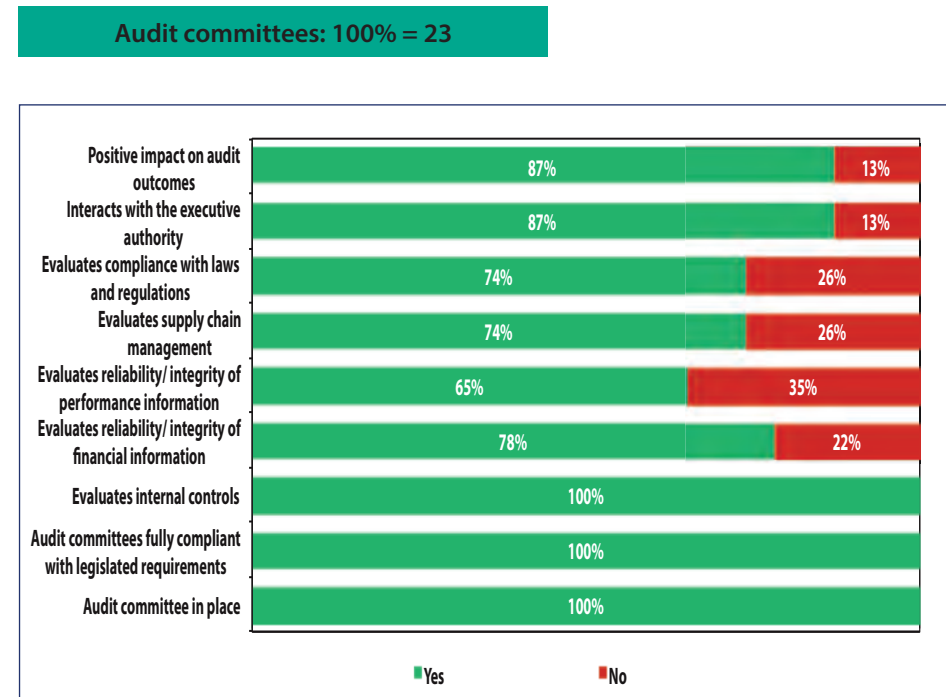
Departmental IT risks were mapped to the generic risk scenarios identified and sent to all DITCOMs for feedback.

The IT risk management framework is aligned to the enterprise risk management framework and has been accepted by the ERM unit.

## 3.4 AUDIT COMMITTEES AND INTERNAL AUDIT

Effective governance is a driver of audit outcomes, while audit committees and internal audit are key elements of governance. In terms of legislation an audit committee and internal audit unit must be established by all auditees. Audit committees must serve as an independent governance structures whose function is to play an oversight role regarding the systems of internal control, compliance with legislation, risk management and governance. In performing its duties, the audit committee assists the accounting officer in the effective execution of his/her responsibilities, with the ultimate aim of achieving the organisation's objectives. Internal audit units should provide assurance on governance, risk management and control. The figures that follow depict the assessed effectiveness of audit committees and internal audit units for the year under review.

Figure 24: Effectiveness of audit committees



All 14 departments and nine out of 10 public entities reported on had audit committees in place for the period under review, as prescribed by the PFMA and related treasury regulations, while all (100%) of the audit committees complied with the legislated requirements and evaluated internal controls. There is a very distinct difference between being compliant and being effective. It is evident that 20 (87%) of the audit committees had a direct impact and 13% had no impact on the audit outcomes of their respective auditees, as discussed below.

Audit committees generally have limited influence to change and follow up on the recommendations they make to departments and public entities. This perceived limited influence on their part limits their impact on influencing outcomes, as they report to the leadership of the departments and public entities employing them. The most effective means to address this matter at provincial departments is for the audit committees to frequently interact with the portfolio executives (MECs) as well as with the legislatures portfolio committees. Our assessment of this interaction was rated as in progress as there was interaction

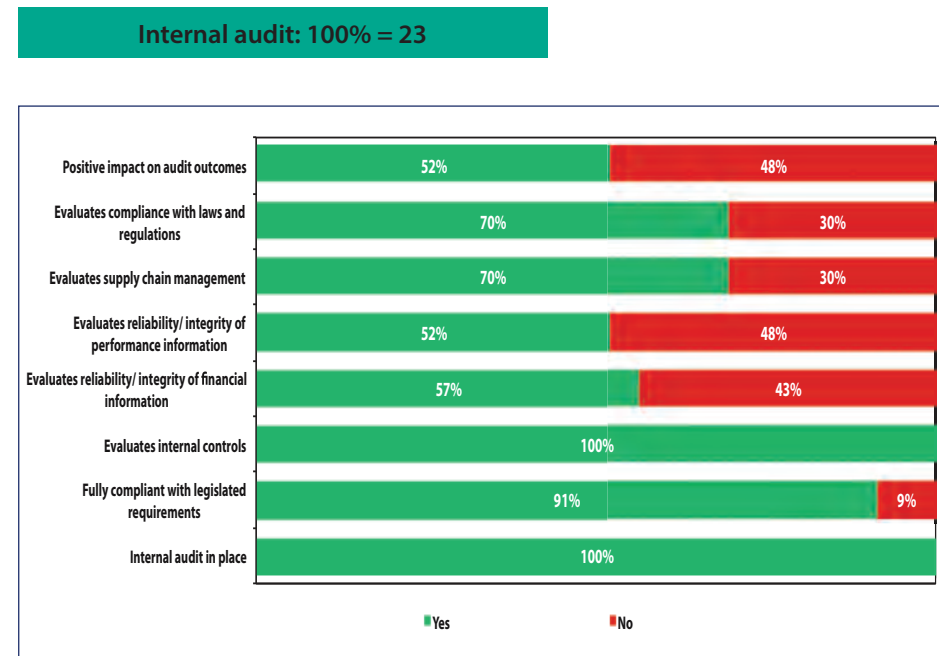
between the audit committee chairs and the executive takes place at least once a year, except for the one public entity that was closed during the financial year.

The recommendations of audit committees and internal audit with regard to compliance with laws and regulations and SCM regulations, in particular, were not effectively implemented by some auditees, with 14 auditees having findings in these areas. The audit committees and internal audit should intensify follow-up of the implementation of their recommendations to ensure that auditees address the identified deficiencies in compliance with laws and regulations and SCM.

Two departments had findings on predetermined objectives due to a lack of documented policies and adequate systems for the collation, recording and reporting on performance information. Internal audit units and audit committees did not effectively monitor compliance with regulations relating to predetermined objectives on an ongoing basis. Moreover, internal audit and the audit committee did not effectively monitor action plans to address the problems raised in the quarterly key control assessments on performance information. The production of quality information on performance against predetermined objectives by dedicated officials who know and understand the requirements is a priority. The information must be evaluated by internal audit units and audit committees and monitored at the appropriate leadership levels to enable quality decision-making and service delivery in support of government's mandated commitments to the public.

Management prepared interim six-monthly financial statements, including the limited disclosure notes to the financial statements. These financial statements were reviewed by the provincial treasury as part of the red-flag initiative. Internal audit also help to access the credibility of information included in the financial statements assisted by oversight from the audit committees. However, the audit committees' review of the financial statements, prior to submission for audit purposes could be improved to reduce or eliminate the corrections required to financial statements, especially in the area of disclosure notes. Accordingly, the audit committees should enhance their oversight role over the financial statement preparation process.

**Figure 25: Effectiveness of internal audit units**



All 14 departments and nine out of 10 public entities reported on had internal audit units in place for the period under review, as prescribed by the PFMA and related treasury regulations, and evaluated internal controls. The majority of internal audit units generally complied with the legislated requirements, with two (9%) entities having shortcomings in this regard. However, maximum value has not been derived from internal audit units as they had limited success in addressing deficiencies in the areas of compliance with laws and regulations, reporting on predetermined objectives and financial statement preparation process, with only 52% contributing to a positive impact on audit outcomes.

The lower-than-expected impact on audit outcomes was also influenced by the fact that internal audit did not always complete their approved annual work plans due to limited resources. The leadership should strengthen the capacity of internal audit through focused training, while evaluating whether the staffing of internal audit is at the optimum level to meet operating requirements. The audit committees, in turn, should monitor the activities of the internal audit

functions to ensure that the scope of planned and actual annual audit coverage is responsive to risks related to financial management, financial reporting, service delivery reporting and compliance with laws and regulations.

There is still a need for internal audit to monitor compliance with laws and regulations more proactively, in particular, supply chain management, as these areas remain a critical obstacle to achieving clean administration, with 11 departments and three entities having findings in this area. In particular, internal audit can greatly improve internal controls in the SCM processes by proactively auditing the regularity of contract award processes and providing some assurance to management on this matter and by reviewing the implementation and/or use of compliance checklists through ongoing monitoring.

Except for two departments, the province has slightly improved its outcomes on predetermined objectives. The two affected departments did not effectively implement the internal audit unit and address the shortcomings identified by internal audit. It is critical that focus be maintained on continuous credibility checks to ensure, through the internal audit function and audit committee that information included in the performance reports submitted throughout the year is accurate and complete. In particular, internal audit should intensify their review of quarterly performance reports to ensure that they are supported by reliable evidence.

Management undertook to prepare financial information monthly, while internal audit units should play a significant role in ensuring that the information produced by systems is indeed valid, accurate and complete. Initiatives to deliver on this commitment have not yet proven to be effective and internal audit units did not adequately focus on review of the credibility of financial reporting relating to disclosure notes, in particular. The leadership should renew their endeavours to report financial information on a monthly basis, while internal audit units should play a more significant role in ensuring that the financial information produced by systems is indeed valid, accurate and complete.



# SECTION 4

## IMPACT OF KEY ROLE PLAYERS ON AUDIT OUTCOMES

- 4.1 INITIATIVES AND COMMITMENTS MADE BY KEY ROLE PLAYERS TO IMPROVE AUDIT OUTCOMES
- 4.2 STATUS OF IMPLEMENTATION OF PUBLIC ACCOUNTS COMMITTEE OVERSIGHT RESOLUTIONS
- 4.3 AUDITOR-GENERAL OF SOUTH AFRICA INITIATIVES TO ENCOURAGE CLEAN AUDITS



AUDITOR - GENERAL  
SOUTH AFRICA



# SECTION 4

## IMPACT OF KEY ROLE PLAYERS ON AUDIT OUTCOMES

This section of the general report provides details of the initiatives and commitments of key provincial role players to improve audit outcomes, the status of implementation of public accounts committees' oversight resolutions and an overview of the AGSA's continuing initiatives to encourage clean audits.

For each organisation there are a number of assurance providers which either directly or indirectly provide certain assurances regarding the effectiveness of the controls that mitigate the risks, as identified during the risks assessment process. This refers to combined assurance, which aims to optimise the assurance coverage obtained from management, internal assurance providers and external assurance providers.

The figure below depicts the required level of assurance to be provided by each assurance provider at an overall level, while the table below reflects the AGSA's assessment of the actual levels of assurance, based on our assessment during the audit and the interactions with the assurance providers.

**Figure 26: Combined assurance providers**

Management assurance First level of assurance			Oversight assurance Second level of assurance			Independent assurance Third level of assurance		
Senior management	Accounting officer/authority	Executive authority	Coordinating/monitoring institutions	Internal audit	Audit committee	Oversight (portfolio committee and councils)	Public accounts committee	External audit
Required assurance levels								
Extensive	Extensive	Extensive	Extensive	Extensive	Extensive	Extensive	Extensive	Extensive

**Table 25: Combined assurance providers per auditee**

Auditee	Senior management	Accounting officer/ authority	Executive authority	Oversight - Portfolio committees (not applicable at auditee level)	Audit committee	Internal audit	Public accounts committees (not applicable at auditee level)	Coordinating/ monitoring institutions (not applicable at auditee level)
Required assurance level	Extensive	Extensive	Extensive	Extensive	Extensive	Extensive	Extensive	Extensive
<b>Auditee level</b>								
Agriculture	Green	Green	Yellow	White	Yellow	Yellow	White	White
Community Safety	Yellow	Green	Yellow	White	Green	Yellow	White	White
Cultural Affairs and Sport	Yellow	Green	Green	White	Green	Yellow	White	White
Economic Development and Tourism	Red	Yellow	Yellow	White	Yellow	Yellow	White	White
Education	Red	Yellow	Yellow	White	Yellow	Red	White	White
Environmental Affairs and Development Planning	Green	Green	Yellow	White	Yellow	Yellow	White	White
Health	Green	Green	Yellow	White	Green	Red	White	White
Human Settlements	Yellow	Yellow	Yellow	White	Yellow	Yellow	White	White
Local Government	Yellow	Yellow	Yellow	White	Green	Green	White	White
Provincial legislature	Green	Green	Green	White	Green	Green	White	White
Provincial Premier	Green	Green	Green	White	Green	Green	White	White
Provincial revenue Fund	Green	Green	Green	White	Green	Green	White	White
Provincial treasury	Green	Green	Green	White	Green	Green	White	White
Social Development	Yellow	Yellow	Yellow	White	Yellow	Yellow	White	White
Transport and Public Works	Yellow	Yellow	Yellow	White	Red	Yellow	White	White

Auditee	Senior management	Accounting officer/ authority	Executive authority	Oversight - Portfolio committees (not applicable at auditee level)	Audit committee	Internal audit	Public accounts committees (not applicable at auditee level)	Coordinating/ monitoring institutions (not applicable at auditee level)
Required assurance level	Extensive	Extensive	Extensive	Extensive	Extensive	Extensive	Extensive	Extensive
Auditee level								
Cape Medical Depot								
Casidra (Pty) Ltd								
Destination Marketing Org (TA Cape Town Routes Unlimited)								
Government Motor Transport								
The Heritage Western Cape								
Western Cape Cultural Commission								
Western Cape Gambling and Racing Board								
Western Cape Housing Development Fund								
Western Cape Investment and Trade Promotion Agency								
Western Cape Language Committee								
Western Cape Nature Conservation Board								
Western Cape Provincial Development Council								

Auditee	Senior management	Accounting officer/ authority	Executive authority	Oversight - Portfolio committees (not applicable at auditee level)	Audit committee	Internal audit	Public accounts committees (not applicable at auditee level)	Coordinating/ monitoring institutions (not applicable at auditee level)
Required assurance level	Extensive	Extensive	Extensive	Extensive	Extensive	Extensive	Extensive	Extensive
<b>Oversight level</b>								
Standing Committee on Public Accounts								
Budget committee								
Standing committee on Agriculture and Environmental Planning								
Standing Committee on Finance and Economic Development (Provincial Treasury, Economic Development and Tourism and Transport and Public Works)								
Standing Committee on Premier, Gender, Disabled and Youth (Premier)								
Standing Committee on Local Government (Local Government and National Council of Provinces)								
Standing Committee on Human Settlements (Human Settlements)								

Auditee	Senior management	Accounting officer/ authority	Executive authority	Oversight - Portfolio committees (not applicable at auditee level)	Audit committee	Internal audit	Public accounts committees (not applicable at auditee level)	Coordinating/ monitoring institutions (not applicable at auditee level)
<b>Required assurance level</b>	<b>Extensive</b>	<b>Extensive</b>	<b>Extensive</b>	<b>Extensive</b>	<b>Extensive</b>	<b>Extensive</b>	<b>Extensive</b>	<b>Extensive</b>
Standing Committee on Community Safety, Cultural Affairs and Sport (Community Safety and Cultural Affairs and Sport)								
Standing Committee on Education (Education)								
Standing Committee on Community Development (Health and Social Development)								
Standing Committee on Local Government Oversight								
<b>Coordinating/monitoring institution</b>								
Provincial treasury								
<b>Overall provincial assessment</b>								
Overall assessment of assurance providers for the province								
	Meets required level of assurance							
	Provides some of required level of assurance							
	Significantly lower than required level of assurance							

Our assessment identified gaps in the actual levels of assurance indicating that assurance responsibilities are not adequately fulfilled to mitigate or reduce risks in the three areas of risk (credible annual financial statements, credible reporting of performance against predetermined objectives and compliance with key laws and legislation). We recommend that all the assurance providers should work together to ensure that the combined assurance model is applied to provide a coordinated approach to all assurance activities, thereby ensuring that significant risk areas within the departments and entities are adequately addressed and suitable controls exist to mitigate and reduce these risks.

#### 4.1 INITIATIVES AND COMMITMENTS MADE BY KEY ROLE PLAYERS TO IMPROVE AUDIT OUTCOMES

The table that follows outlines the key initiatives of the provincial leadership and oversight to improve audit outcomes as well as further commitments made to the AGSA for actions to be taken. The commitments include those made in response to the previous year's audit outcomes and new commitments obtained through in-year interactions and engagements with them between October 2012 and the date of this report. An assessment of the impact of the initiatives and commitments is also provided.



**Table 26: Key initiatives and commitments by provincial role players**

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial executive leadership</b>	<b>Initiatives to improve audit outcomes</b>			
	The CFOs at the respective public entities committed to resolving the IT-related shortcomings.	IT	In progress	Limited impact
	The provincial GITO in the Department of the Premier has committed to resolving the transversal information systems findings for the province through the Centre of E-Innovation.	IT	In progress	Limited impact
	The executive authority and oversight structures have committed to quarterly monitoring and evaluation of the status of the key controls and commitments in order to achieve sustainable clean audit outcomes.	SCM, PDO, quality of AFS, IT controls, HR	In progress	Limited impact

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial executive leadership</b>	<b>Prior year commitments</b>			
	All officials execute their functions in the manner that positively affects the standards and the timelines. This includes monthly reporting on financial (including AFS disclosure notes), predetermined objectives and compliance and monthly validation of the credibility of the reported information.	SCM, PDO, quality of AFS, turnaround plans, IT controls, HR	In progress	Limited impact
	Internal audit and audit committees will confirm the credibility of information related to financials, predetermined objectives and compliance as part of their normal focus.	SCM, PDO, quality of AFS, IT controls, HR	In progress	Some impact

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial executive leadership</b>	Combined quarterly key controls sessions with the AGSA and all the role players that are crucial to the sustainability of clean administration. These role players include the executive, HoD, CFO, the officials responsible for financials, predetermined objectives and compliance, internal audit and audit committees.	SCM, PDO, quality of AFS, IT controls, HR	In progress	Limited impact

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial executive leadership</b>	To revise and strengthen its own set of prescripts and control measures for supply chain management, which includes the principles of the Business Interests of Employees Act concomitant refinements to both the provincial treasury and the National Treasury's practice notes and instructions and reissuing them as provincial treasury Instructions.	SCM	In progress	Limited impact

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>New commitments</b>				
<i>Provincial executive leadership</i>	Accounting officers to analyse the AGSA's reports that will feed into the development and implementation of action plans (corporate governance and review outlook or CGRO)* to address the gaps between the current and clean audit outcomes, with a focus on the preparation of quality financial statements, asset management, information technology controls, human resource management, supply chain management, predetermined objectives and risk management.	SCM, PDO, quality of AFS, turnaround plans, IT controls, HR, governance	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<i>Provincial executive leadership</i>	Monthly reporting on the implementation of the CGRO to the executive authorities and provincial treasury.	SCM, PDO, quality of AFS, turnaround plans, IT controls, HR, governance	New	Not yet able to assess
<b>Initiatives to improve audit outcomes</b>				
<i>Provincial treasury</i>	The provincial treasury reviewed the six-monthly financial statements prepared by departments and provided feedback to improve the quality of financial statements.	Quality of AFS	Complete	Limited impact

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial treasury</b>	Review of provincial treasury instructions, the development of departmental SCM systems and delegations, standard operating procedures, transaction checklists, and reporting tools to improve governance process over SCM, while strengthening monitoring and evaluation through compliance assessment and reporting.	SCM	In progress	Limited impact

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial treasury</b>	The provincial treasury compiled a provincial guide for the development of an annual performance plan as well as a step-by-step guide for the performance management process with a view to improving management and reporting on predetermined objectives. Adherence to the guides was assessed.	PDO	In progress	Limited impact

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial treasury</b>	The provincial treasury developed an internal control framework for the province to strengthen the internal control units within each department and to forge greater cooperation between those units and internal audit to improve the focus on significant risks.	SCM, PDO, quality of AFS, IT controls, HR	In progress	Some impact
	The provincial treasury is developing a provincial skilling strategy with a focus on enhancing competence in the areas of financial systems and SCM.	Quality of AFS, SCM	In progress	Limited impact
	The provincial treasury is monitoring the implementation of the user account management guidelines by the departments with the assistance of internal audit.	IT controls	In progress	Limited impact

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial treasury</b>	The provincial treasury is facilitating the use and introduction of electronic systems, such as the use of Logis for all payments of goods and services, monthly reporting to monitor the personnel establishment and expenditure, centralised access control and user account management to transversal IT systems, as well as implementing an electronic procurement and contract management system with a view to improving financial management and SCM.	Financial management, SCM	In progress	Limited impact

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial treasury</b>	<b>Prior year commitments</b>			
	Accounting officers have been tasked with devising action plans (FMIPs) to address the areas of deterioration, particularly as it relates to SCM, including uncompetitive and unfair procurement processes, and forwarding these to the provincial treasury to monitor progress to prevent a repetition of similar findings during the next audit cycle.	SCM, PDO, quality of AFS, turnaround plans, IT controls, HR	Complete	Limited impact

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial treasury</b>	The provincial treasury concurrently analysed all the departments' and entities' audit reports for the 2010-11 financial year, together with the associated management reports, and compiled a provincial treasury action plan to deal with transversal issues and, where necessary, to assist departments and entities to improve their financial management capability rating.	SCM, PDO, quality of AFS, turnaround plans, IT controls, HR	Complete	Limited impact
	The departmental action plans and Provincial treasury transversal action plan have been monitored by provincial treasury through the FMIP on an ongoing basis and feedback was given to departments.	SCM, PDO, quality of AFS, turnaround plans, IT controls, HR	Complete	Limited impact

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>New commitments</b>				
<b>Provincial treasury</b>	The provincial treasury's commitment to clean governance and, consequently, clean audit outcomes has been articulated in the Corporate Governance and Review Outlook (CGRO), with the main purpose being a provincial strategy to support departments in achieving clean audit outcomes for the 2012-13 financial year and with a focus on the following:	SCM, PDO, quality of AFS, turnaround plans, IT controls, HR	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial treasury</b>	*The provincial treasury has developed a draft Western Cape government internal control framework and is currently cooperating with the corporate service centre to develop an integrated Western Cape risk and control framework. The provincial treasury will also review the financial delegations of departments in order to ensure the relevance and completeness thereof.	Governance	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial treasury</b>	* The provincial treasury will conduct regular assessments of the draft annual performance plans and annual reports, provide technical and performance assessments on quarterly performance reports and annual reports with recommendations for their improvements.	PDO	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial treasury</b>	* The provincial treasury will: - develop provincial treasury instructions on expenditure management and will facilitate capacity-building and sharing of best practices through the management accounting forum (joint forum of departments and the provincial treasury) - provide an analysis of selected expenditure items and functions in order to enhance accountability, data integrity and efficiency in all Departments, with a particular focus on the departments of Education and Health	Expenditure management	New	Not yet able to assess



Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial treasury</b>	* The provincial treasury issued a debt management circular in September 2012 that provides guidance on the treatment of departmental debt and the reporting thereof. The provincial treasury will also issue a tariff circular to improve the rational and completeness of requests for tariff adjustments during the financial year.	Revenue management	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial treasury</b>	* The provincial treasury is driving SCM reforms in the province and has already issued provincial treasury instructions as a first step. The second step is to develop a blueprint SCM policy document and standard operating procedures for departments. Compliance assessments at departments will be continued to assist them to strengthening their SCM environment. A comprehensive SCM training strategy for the province will be developed to improve the knowledge of SCM practitioners.	SCM	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial treasury</b>	* Provincial Treasury Accounting will address the treatment and disclosure of Government Garage vehicle expenditure as finance leases, inventory management, the management of library material, generating of internal reports, the accuracy of commitments and accruals, and the irregular expenditure guideline document during engagements with National Treasury and will assess payments not made within 30 days of receipt of invoice in the broader context of budget versus expenditure	Financial accounting	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial treasury</b>	The provincial treasury is presenting training throughout on the transversal systems (Logis, BAS and Persal) and will continue with the centralisation of the system controller functions.	IT	New	Not yet able to assess
	The Western Cape supplier database has been improved and the development and implementation of a web-based e-procurement solution are being pursued.	IT, SCM	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial treasury</b>	* The provincial treasury will report progress on the implementation of the CGRO quarterly to cabinet in January and April 2013. (The process of reporting on the CGRO progress to the respective audit committees to be agreed upon and implemented for the third quarter reporting cycle during the 2012-13 financial year.)	SCM, PDO, quality of AFS, turnaround plans, IT controls, HR	New	Not yet able to assess
<b>Provincial public accounts committee</b>	<b>Initiatives to improve audit outcomes</b>			
	None.			
	<b>Prior year commitments</b>			
	Collaboration between the portfolio/ standing committees and SCOPA to improve the effectiveness of oversight capacity to address audit outcomes	SCM, PDO, financial management, turnaround plans, IT controls, HR	In progress	Some impact

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial public accounts committee</b>	<b>New commitments</b>			
	SCOPA will monitor the implementation of its resolutions by departments and provincial public and trading entities to improve audit outcomes.	SCM, PDO, financial management, turnaround plans, IT controls, HR	New	Not yet able to assess
<b>Provincial portfolio committees</b>	<b>Initiatives to improve audit outcomes</b>			
	None.			
	<b>Prior year commitments</b>			
	Collaboration between the portfolio/ standing committees and SCOPA to improve the effectiveness of oversight capacity to address audit outcomes.	SCM, PDO, financial management, turnaround plans, IT controls, HR	In progress	Some impact

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial portfolio committees</b>	<b>New commitments</b>			
	<p>The Budget Committee will meet with the AGSA on a quarterly basis to discuss progress made towards ensuring improved audit outcomes.</p> <p>Portfolio Committees will regularly follow up on previous years' audit findings and progress made to address these, as per the departmental CGROs.</p>	SCM, PDO, financial management, Turnaround plans, IT controls, HR	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Legislature/ Speaker</b>	<b>Initiatives to improve audit outcomes</b>			
	Various capacity-building interventions have been implemented to ensure that members have the required knowledge to fulfil the full extent of their mandate and interact appropriately with the information provided to them.	SCM, PDO, financial management, turnaround plans, IT controls, HR	In progress	Some impact
	<b>Prior year commitments</b>			
	Collaboration between the portfolio/ standing committees and SCOPA.	PDO, financial management	In progress	Some impact
	Engage chief whips to spend complete days discussing the annual reports to understand and contribute to positively influenced the audit outcomes.	PDO, financial management, turnaround plans	Not started	Some impact

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Legislature/ Speaker</b>	Recommend to the chairpersons' forum the inclusion of a standing agenda item at their forum meetings, which includes the discussion of audit outcomes and progress made by the leadership in achieving their commitments.	SCM, PDO, financial management	In progress	Some impact
	Speaker should also liaise with the provincial treasury red-flag team to gain an understanding of the key issues to ensure that committee members focus on appropriate areas.	SCM, PDO, financial management, IT controls, HR	In progress	Some impact
	Section 5 of the annual report should be scrutinised more thoroughly than in the past. Speaker to engage chairs to alert them to the importance of HR management.	HR	In progress	Some impact

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Legislature/ Speaker</b>	Developed governance legislation that will be incorporated into rules to improve procedural knowledge of committees.	Governance	Not started	Some impact
	<b>New commitments</b> Refer to new commitments under provincial portfolio committees above.			

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Corporate services centre</b>	<b>Initiatives to improve audit outcomes</b>			
	Implement plans and systems to prevent fraud and corruption.	SCM, financial management, IT controls, HR	In progress	Some impact
	<b>Prior year commitments</b>			
	None.			
	<b>New commitments</b>			
	Internal audit service delivery model will change to include a transversal audit team that would provide independent assurance regarding the corporate governance and review outlook issues following a risk-based approach.	SCM, PDO, financial management, turnaround plans, IT controls, HR	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Corporate services centre</b>	Implement an IT governance improvement programme which is aimed at improving the IT governance maturity rating of the provincial government in accordance with international best practice - as is measured by the Control Objectives for Information Technology (COBIT) framework.	IT	New	Not yet able to assess
	Development of a monitoring, reporting and evaluation mechanism to address prior year IT audit findings.	IT	New	Not yet able to assess
	A process and project plan has been implemented to focus on minimum compliance with regard to new appointments. All appointments for the current year are audited once completed.	HR	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Corporate services centre</b>	The introduction of enhanced management controls for record management together with operational and electronic system interventions to be introduced to address the non-compliance issues with regard to record management.	HR	New	Not yet able to assess
	A leave administration management plan has been put in place which includes the reallocation of resources to address the processing of leave applications and the application of the leave regulations.	HR	New	Not yet able to assess
* The corporate governance and review outlook (CGRO) replaced the previous financial management improvement plan (FMIP) and the financial governance and review outlook (FGRO). It is a wide-ranging internal assessment per department to determine the gaps between the desired and the current state, together with remedial steps and any assistance required from the provincial treasury and the corporate service centre, or both, to achieve higher levels of governance in the Western Cape provincial government. It incorporates initiatives to address the AGSA's findings with a view to improving audit outcomes.				

Although commitments have been made by the various provincial role players to work towards achieving clean audit outcomes, efforts to improve SCM, PDOs and the quality of financial statements are yet to produce substantive results given the limited improvement in audit outcomes at provincial departments, in particular. At the same time, we are encouraged that the extent of procurement and contract management findings noted for departments decreased due to the implementation and monitoring of action plans where improvements were noted. Similarly, the predetermined objectives for departments without findings remained positively stable from 2010-11 with all of them remaining without findings; however, the extent of findings reported at the two departments (Social Development and Human Settlements) with findings; in the prior year has increased. The commitments made by the previous Speakers were not acted on because wider consultation was required with the members of the legislature in initially making the commitments.

The progress made in implementing the commitments relating to improved financial management and better quality financial statements, as well as compliance with SCM regulations, is expected to be evident in upcoming years. The AGSA noted that all the commitments made were not sufficiently detailed with reference to specific target dates, responsibilities and implementation milestones to enable effective monitoring by executive authorities and provincial oversight structures in order to achieve sustainable clean audit outcomes.

The challenge remains for the executive and the provincial oversight to improve their monitoring of the implementation of commitments to ensure that internal control measures to sustain clean audit outcomes are institutionalised, while doubling their efforts to address internal control deficiencies in respect of predetermined objectives, compliance with laws, SCM, asset management, as well as material misstatements. To this extent, the province has developed a corporate governance and review outlook plan (CGRO), to replace the previous financial management improvement plan. It is a wide-ranging internal assessment per department to determine the gaps between the desired and the current state, together with remedial steps and any assistance required from the provincial treasury and the corporate service centre, or both, to achieve higher levels of governance in the Western Cape government. It incorporates initiatives

to address the AGSA's findings with a view to improving audit outcomes. The implementation of the CGRO will be monitored on a monthly basis by the executive authorities and the provincial treasury. The provincial treasury will prepare a consolidated quarterly report for monitoring by the cabinet.

Endeavours must be renewed to strengthen oversight through improved coordination between SCOPA and the provincial portfolio committees to ensure a holistic oversight of financial management and performance information.

Internal audit and the audit committee should review the CGROs to ensure that they include credible actions and clear milestones, as well as regularly monitor the implementation thereof to address the range of audit findings and the related internal control deficiencies in a sustainable manner. The audit committees are encouraged to meet frequently with the legislature and ministers to provide them with assurance, at least on a quarterly basis, regarding the implementation of the CGROs.

## 4.2 STATUS OF IMPLEMENTATION OF PUBLIC ACCOUNTS COMMITTEE OVERSIGHT RESOLUTIONS

106

The status as at March 2012 of implementation by auditees of PAC resolutions relating to specific auditees in the province is reflected in the next table.

At year-end 89 (55%) of the 161 PAC resolutions were in various stages of implementation. The provincial treasury assisted the PAC in the evaluation of replies submitted by departments and public entities. The resolutions listed below as being outstanding are based on evaluation during the 2011-12 audits by the AGSA.



**Table 27: Status of implementation of PAC resolutions**

Auditee	Number of resolutions				Target area of resolutions			
	Passed	Implemented	In progress	Not actioned	Financial management	PDOs	Compliance	Other
<b>Departments</b>								
Agriculture	0							
Community Safety	1	1						●
Cultural Affairs and Sport	4	4			●		●	●
Economic Development and Tourism	5	4	1				●	●
Education	23	16	7		●	●	●	●
Environmental Affairs and Development Planning	4	4					●	●
Health	4	1	3		●		●	
Human Settlements	11		11		●		●	●
Local Government	8		8		●	●	●	
Office of the Premier	13	7	6		●		●	●
Provincial parliament	9	8	1		●	●	●	●
Provincial treasury	4	3	1		●			●
Social Development	15	7	8			●		●
Transport and Public Works	16	5	11		●		●	●
<b>Public entities</b>								
Cape Medical Depot	9	7	2		●		●	●
Casidra (Pty) Ltd	1	1					●	
Destination Marketing Org (TA Cape Town Route Unlimited)	0							
Government Motor Transport	2	1	1		●		●	

Auditee	Number of resolutions				Target area of resolutions			
	Passed	Implemented	In progress	Not actioned	Financial management	PDOs	Compliance	Other
The Heritage Western Cape	2	2						●
Western Cape Cultural Commission	2	2					●	●
Western Cape Gambling and Racing Board	4	3	1			●	●	●
Western Cape Housing Development Fund	2		2		●		●	
Western Cape Investment and Trade Agency	11	9	2		●		●	●
Western Cape Language Committee	4	4					●	●
Western Cape Nature Conservation Board	6		6		●		●	●
Western Cape Provincial Development Council	1			1	●			
<b>Total</b>	<b>161</b>	<b>89</b>	<b>71</b>	<b>1</b>				

The resolution that was not implemented related to the SCM control deficiencies in respect of the now defunct Western Cape Provincial Development Fund.

It is evident from the analysis of resolutions that strong focus is placed on problems with financial management and compliance with laws and regulations, and SCM in particular. A limited number of resolutions apply to the area of reporting on predetermined objectives.

It is encouraging that action has been taken on almost all resolutions, but a significant percentage (44%) of these actions have not been fully implemented. In cases where these resolutions date back to prior years, the completion of actions will have to be monitored by the PAC.

### 4.3 AUDITOR-GENERAL OF SOUTH AFRICA'S INITIATIVES TO ENCOURAGE CLEAN AUDITS

Summarised below are some of the key initiatives the AGSA has embarked on to promote public sector accountability and to encourage the process of improving audit outcomes and attaining clean audits.

**Table 28: The Auditor-General of South Africa's key initiatives to encourage clean audits**

<b>Nature</b>	<b>Outline of AGSA initiatives</b>
<b>Interactions with the political and administrative leadership</b>	<ul style="list-style-type: none"> <li>During quarterly key control engagements, the AGSA visited the Premier and all ministers, including the Speaker of the provincial legislature, to discuss the key controls for all auditees and to highlight those areas that they could influence to ensure clean audit outcomes.</li> <li>The quarterly visits were also used to share insights relating to emerging risks and controls with a view to creating a deeper understanding of the audit outcomes and messages. Interactions were also extended to provincial legislative oversight to share insights and enable improved oversight of provincial government.</li> </ul>
<b>Stakeholder interactions and audit outcome road shows</b>	<ul style="list-style-type: none"> <li>The preliminary audit outcomes were shared with the Premier on 16 July 2012 and highlighted those departments and public entities they could influence to ensure clean audit outcomes.</li> <li>The AGSA leadership had several engagements with the provincial leadership and provincial oversight bodies where the audit outcomes, the root causes thereof and the recommended way forward to improve on the audit outcomes were explained.</li> </ul>

<b>Nature</b>	<b>Outline of AGSA initiatives</b>
<b>Quarterly interactions on status of key controls</b>	<ul style="list-style-type: none"> <li>We continued to sensitise auditees to the importance of implementing and maintaining key controls around financial and performance management and compliance with laws and regulations with a view to auditees taking over the assessment of key controls on a quarterly basis.</li> </ul>
	<ul style="list-style-type: none"> <li>During the key control visits, the AGSA teams secured commitments on what would be done to improve going forward and these commitments are then monitored. The message was conveyed that the leadership should take ownership of the key controls and monitor them on a continuous basis to create and sustainably maintain effective key controls.</li> </ul>
<b>Promoting understanding of PDO requirements</b>	There have been numerous interactions with auditees, the provincial treasury and provincial forums, such as the chief financial officers' forum, in respect of requirements relating to the reporting of performance information. The awareness sessions were also extended to oversight and provincial leadership.
<b>Involvement in forums and meetings related to provincial government financial affairs</b>	<p>The AGSA participates in a number of forums and committees on a regular basis to raise pertinent issues that may affect audit outcomes and to enable the forums in executing their oversight role. These include the following:</p> <ul style="list-style-type: none"> <li>The provincial treasury, which oversees the implementation of the operation clean audit programme</li> <li>Chief financial officers' forum</li> <li>Supply chain management forum</li> </ul>

<b>Nature</b>	<b>Outline of AGSA initiatives</b>
<b>Collaboration with the provincial treasury</b>	<ul style="list-style-type: none"> <li>• We frequently engage with the provincial treasury to discuss relevant accounting and legal matters that may affect the audit outcomes.</li> <li>• We interact with the provincial treasury on their commitment to monitor the quality of departments' action plans and the implementation of the transversal financial management improvement initiatives.</li> <li>• The AGSA shares emerging risks with the provincial treasury so that they can prepare the departments and/or entities appropriately as these pose a risk of not achieving clean audit outcomes.</li> </ul>
<b>Promoting an understanding of IT risks and controls</b>	<ul style="list-style-type: none"> <li>• Progress was made with the commitments by the provincial GITO, and the Office of the Premier committed to resolve the transversal information systems findings for the province through the Centre of e-Innovation. The efforts of public entities to resolve their IT-related control deficiencies were also followed up on a quarterly basis.</li> <li>• We continued to share our insights with the Centre of e-Innovation in the development and implementation of an IT governance framework for provincial departments.</li> <li>• We continued to raise the importance of effective IT controls in oversight committees, for example the provincial SCOPA and audit committees, whose efforts assisted greatly in driving accountability to address IT shortcomings.</li> </ul>
<b>Assisting with fraud risk assessment</b>	<p>The AGSA is developing tools to enhance auditees' ability for ongoing self-assessment and the identification of the risk of fraud, corruption and maladministration.</p>
<b>Contributing to the effectiveness of oversight structures</b>	<p>The AGSA will continue to share insights that may contribute to and enable more effective oversight, as part of its supporting role to those charged with the oversight of provincial government, including the provincial legislature, provincial SCOPA and audit committees.</p>

The following table depicts the impact of the AGSA's interactions with the executive.

**Table 29: Impact of interactions with the executive**

Auditees	Total number of interactions	Audit outcome 2011-12	Audit Outcome 2010-11	Misstatement	Material SCM findings	Material PDO findings
Agriculture	4	Financially unqualified with findings	Financially unqualified with no findings	Unchanged	Regressed	Remained with no findings
Community Safety	3	Financially unqualified with no findings	Financially unqualified with no findings	Improved	Unchanged	Remained with no findings
Cultural Affairs and Sport	4	Financially unqualified with findings	Financially unqualified with findings	Improved	Improved	Remained with no findings
Economic Development and Tourism	4	Financially unqualified with findings	Financially unqualified with findings	Unchanged	Regressed	Remained with no findings
Education	4	Qualified	Financially unqualified with findings	Regressed	Regressed	Remained with no findings
Environmental Affairs and Development Planning	4	Financially unqualified with no findings	Financially unqualified with findings	Improved	Improved	Remained with no findings
Health	3	Financially unqualified with findings	Financially unqualified with findings	Improved	Improved	Remained with no findings
Human Settlements	4	Financially unqualified with findings	Financially unqualified with findings	Unchanged	Improved	Unchanged
Local Government	4	Financially unqualified with findings	Financially unqualified with findings	Unchanged	Regressed	Remained with no findings
Office of the Premier	4	Financially unqualified with findings	Financially unqualified with findings	Regressed	Improved	Remained with no findings

Auditees	Total number of interactions	Audit outcome 2011-12	Audit Outcome 2010-11	Misstatement	Material SCM findings	Material PDO findings
Provincial Parliament	4	Financially unqualified with no findings	Financially unqualified with no findings	Unchanged	Unchanged	Remained with no findings
Provincial treasury	4	Financially unqualified with no findings	Financially unqualified with findings	Improved	Improved	Remained with no findings
Social Development	4	Financially unqualified with findings	Financially unqualified with findings	Unchanged	Regressed	Unchanged
Transport and Public Works	4	Financially unqualified with findings	Financially unqualified with findings	Improved	Unchanged	Remained with no findings
Cape Medical Depot	3	Financially unqualified with no findings	Financially unqualified with findings	Improved	Improved	Remained with no findings
Destination Marketing Org (TA Cape Town Routes Unlimited)	4	Financially unqualified with no findings	Financially unqualified with no findings	Improved	Unchanged	Remained with no findings
Western Cape Gambling and Racing Board	4	Financially unqualified with no findings	Financially unqualified with findings	Improved	Improved	Improved
Government Motor Transport	4	Financially unqualified with findings	Financially unqualified with findings	Regressed	Improved	Remained with no findings
The Heritage Western Cape	4	Financially unqualified with no findings	Financially unqualified with findings	Improved	Improved	Remained with no findings
Western Cape Provincial Development Council	0	Financially unqualified with findings	Financially unqualified with findings	Unchanged	Improved	Remained with no findings

Auditees	Total number of interactions	Audit outcome 2011-12	Audit Outcome 2010-11	Misstatement	Material SCM findings	Material PDO findings
Western Cape Cultural Commission	4	Financially unqualified with no findings	Financially unqualified with findings	Improved	Improved	Remained with no findings
Western Cape Investment and Trade Promotion Agency	4	Financially unqualified with findings	Financially unqualified with findings	Improved	Improved	Remained with no findings
Western Cape Language Committee	4	Financially unqualified with no findings	Financially unqualified with findings	Unchanged	Improved	Remained with no findings
Western Cape Nature Conservation Board	4	Financially unqualified with findings	Financially unqualified with no findings	Regressed	Unchanged	Remained with no findings





# SECTION 5

## EMERGING MATTERS AND AUDITEES' FINANCIAL HEALTH INDICATORS

- 5.1 OTHER CURRENT AND EMERGING MATTERS THAT REQUIRE ATTENTION
- 5.2 FINANCIAL HEALTH INDICATORS



AUDITOR - GENERAL  
SOUTH AFRICA



# SECTION 5

## EMERGING MATTERS AND AUDITEES' FINANCIAL HEALTH INDICATORS

This section of the general report provides information on emerging matters that may impact on future audit outcomes as well as an analysis of auditees' financial health indicators.

### 5.1 OTHER CURRENT AND EMERGING MATTERS THAT REQUIRE ATTENTION

The following matters are expected to have an impact on provincial government audit requirements/outcomes in the 2012-13 financial year. Appropriate measures should therefore be implemented timeously to ensure that these do not negatively impact on audit outcomes.

**Table 30: Current and emerging matters that require attention**

Area of change		Summary of expected changes
<b>Matters affecting government auditees in all provinces</b>		
<b>Accounting matters</b>	Readiness of departments for the eventual inclusion of inventory in the financial statement disclosures	<p>Departments are not yet required to include inventory in the disclosure notes to the financial statements and consequently no audit findings were raised in the auditor's report in this regard.</p> <p>A review conducted of departments' inventory management processes requiring to be addressed included the following:</p> <ul style="list-style-type: none"> <li>• Certain inventory items which have been issued or received have not been recorded on the bin cards.</li> <li>• Inventories that qualify for recognition were not included as part of the inventory balance.</li> <li>• Stock count procedures were not established and policies communicated regarding stock count procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities.</li> </ul>

Area of change		Summary of expected changes
<b>Predetermined objectives</b>	Matter	<p>In terms of the “<i>Framework for strategic plans and annual performance plans</i>” and the National Treasury’s instruction note 33, all strategic and annual performance plans (tabled during February 2012) for all departments, constitutional institutions and public entities listed in schedules 3A and 3C to the PFMA, must be compiled in accordance with the principles as per the framework.</p> <p>Audits of predetermined objectives (for the 2012-13 PFMA audit cycle and going forward) will thus be conducted considering the principles of the “<i>Framework for strategic plans and annual performance plans</i>” in addition to the applicable laws and regulations (as per the AG Directive) for the said auditees.</p>
<b>Matters specific to the Western Cape</b>		
<b>Finance leases</b>	Departure from the disclosure requirements for finance leases: Government Motor Transport	<p>The National Treasury approved a departure from the disclosure of apportioning finance lease expenditure and future financial commitments between capital and interest as prescribed by the departmental financial reporting framework for government (GG) vehicle expenditure and lease commitments. Departments should ensure that they are prepared to comply with the departmental financial reporting framework in full for the 2012-13 financial year.</p>

## 5.2 FINANCIAL HEALTH INDICATORS

Management is responsible for the sound and sustainable management of the affairs of the departments or public entities to which they are appointed and to implement an efficient, effective and transparent financial management system for this purpose, as regulated by legislation. AGSA audits included a high-level analysis of auditees’ financial health indicators in order to provide management with an overview of selected aspects of auditees’ current financial health and enable timely remedial action where financial health and service delivery may be at risk.

Certain aspects of matters related to the management of budgets, expenditure, conditional grants (applicable only to departments), revenue, assets and liabilities were analysed.

The results of the analyses that follow should be considered as indicators of possible risks to the financial health and service delivery within the province overall.

### 5.2.1 Budget, asset and liability management and conditional grants

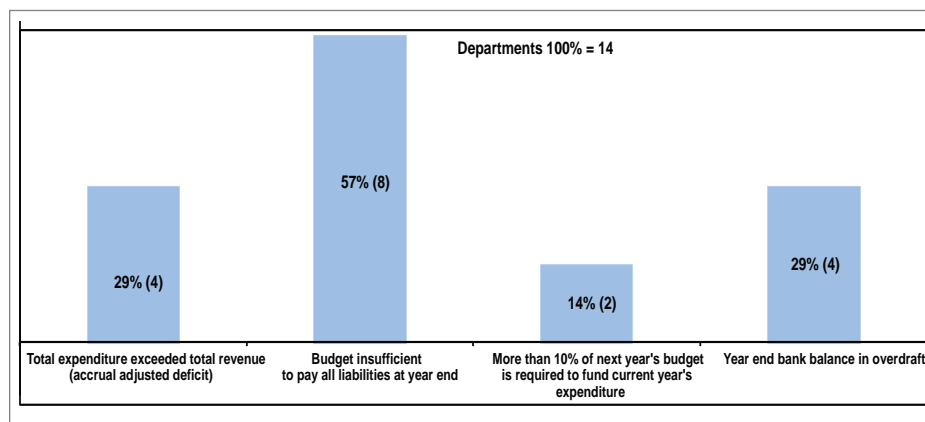
The analysis depicted below would in the private sector be indicators of a possible going concern problem at an entity, i.e. that the entity would not have sufficient funds to continue in business. However, it is uncommon for the operational existence of a public sector auditee to cease as a result of an inability to finance its operations as these departments normally constitute the delivery of service to the public. In these instances additional funding from central government is normally required to enable the auditee to continue its operations.

The figure below shows the number of departments that incurred deficits during the current year and had bank overdrafts at year-end. To determine whether a surplus or deficit was realised at departments the amounts in the annual financial statements were adjusted to the accrual basis of accounting.

The spending of 14 (100%) departments was within the approved budget. However, the annual financial statements of departments are prepared on the modified cash basis of accounting, which means that the expenditure disclosed

in the annual financial statements and used to assess actual expenditure vs. budget is only what was paid during the year and does not include the liabilities for unpaid expenses at year-end. Effectively, these liabilities are paid from the following year's budget, which reduces the amount available for that year's activities. The following figure shows the impact in the province:

**Figure 27: Budget management, deficits and overdrafts: Departments**



After adjusting for accruals, four (29%) departments were no longer in a net asset position, as it was found that their total liabilities exceeded their total assets. This position speaks of an inability to settle their liabilities with the assets they have available. The impact thereof would be that, had these departments already operated on the accrual basis of accounting as they will eventually, they would also have incurred unauthorised expenditure. This situation is expected to be less common once departments have moved over to the accrual basis of accounting.

It is evident from the analysis that eight (57%) departments technically spent more than their budget for the year under review, taking the effect of accruals into account. Consideration should also be given to the fact that the current year expenditure includes accruals that were paid relating to the 2010-11 financial year. For two of the eight departments the amount spent from the next year's budget exceeded 10% at 39% and 13%, respectively. For the other six departments the percentages ranged between 1% and 10%. Had the departments been on the accrual basis of accounting, where they would account for expenditure when

incurred and not only when it is actually paid, many of them may well have incurred unauthorised expenditure. This situation is not ideal, as it indicates that departments have actually spent more money than was allocated to them according to their budgets, although they have not paid all these expenses at year-end. Service delivery in the coming year may be negatively impacted as the available resources for service delivery have already been used to fund the activities of the current year to some extent.

To improve this situation departments have to move to the accrual basis of accounting, where they would account for expenditure when incurred and not when it is actually paid. This way it will be easier to determine when they have exceeded their budgets with expenditure incurred, even though they have not actually made the payments yet.

The combined overdraft for the four departments amounts to R98 million, which is not significant if compared to the total provincial budget amounting to R37,5 billion. Two entities incurred a deficit for the year under review amounting to R5,3 million.

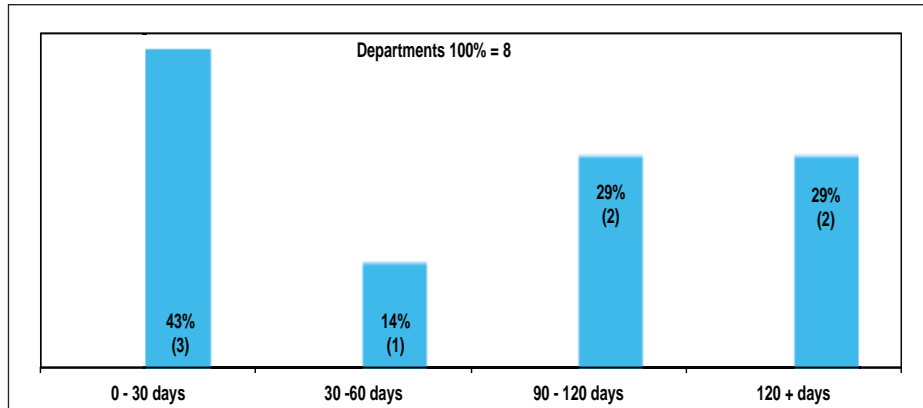
Overall, the province needs to monitor the indicators related to the budget being insufficient to pay all liabilities at year-end in order to implement measures to avoid an increase year on year.

The underspending of capital budgets and conditional grants can have an effect on the ability of the province to deliver on programmes and services. The approved budget (voted funds) of departments is requested from the provincial revenue funds only as required. No department underspent its budget by more than 10%. For the five departments that underspent their budgets the percentage underspending ranged from one to eight per cent. No public entities underspent on their capital budgets.

## 5.2.2 Revenue and expenditure management

The figure below shows the average debtors days. Debtors days refer to the number of days it takes the auditee to recover the money owed to them by persons/institutions.

**Figure 28: Debtor days – departments**

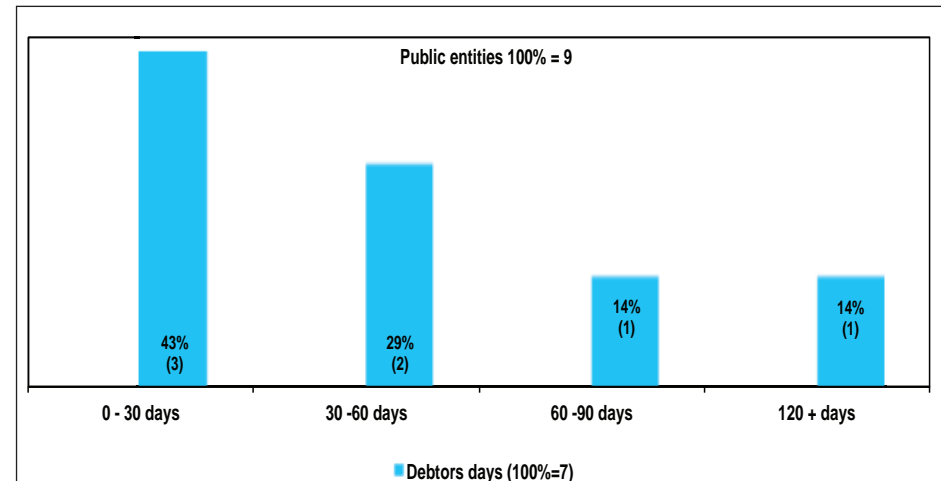


120

It is important to note that the above graph is an averaged calculation of the days taken to collect amounts due from debtors throughout the year and is therefore not an exact age analysis of outstanding amounts at year-end.

With regard to the timely collection of money due, two departments (Education and Transport and Public Works) stood out with average debtor days of 257 and 2 138 days, respectively. At Education the non-compliance relating to the timeous collection of revenue was deemed material and reported in the audit report. Seven departments did not have any debtors to collect due to the nature of their operations.

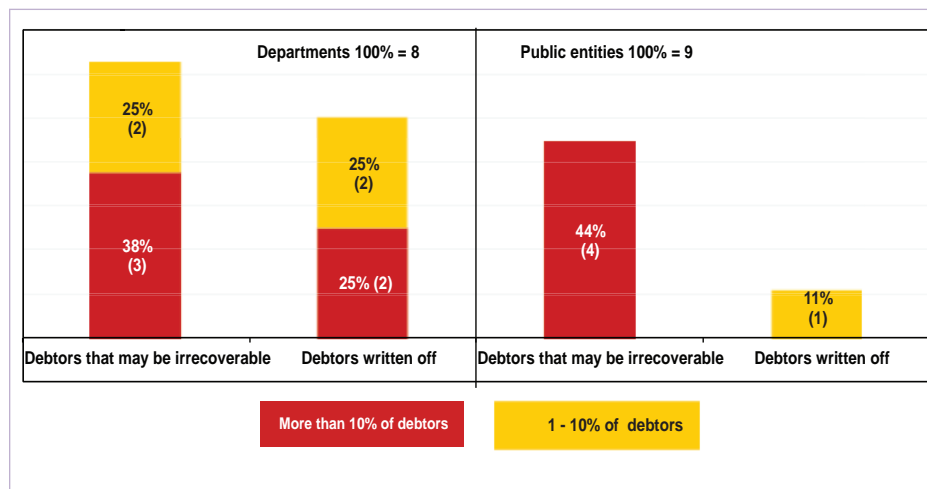
**Figure 29: Debtors days – public entities**



With regard to debt collection, two entities (Western Cape Cultural Commission and the Western Cape Nature Conservation Board) had an average exceeding 60 days and 120 days at 62 days and 144 days, respectively.

For both of the above graphs, the long time taken to collect debtors indicates poor controls over revenue collection, which impacts negatively on the cash flow of the department or entity. This should be rectified by implementing a better system of internal control over debtors. The weakness in recovering revenue owed by debtors is further highlighted in the following figure which shows the extent of bad debts that were written off or provisions made for such write-offs:

**Figure 30: Status of state debtors**



### Conclusion on financial health indicators

Considering all of the above, the province needs to pay close attention to the indicators to avoid deterioration and to address the risk of the province becoming financially unhealthy. Effective management of revenue, expenditure, assets and liabilities, and also a more rigorous budgetary process will be key in improving financial health indicators. Although the above information is not apparent from the annual financial statements of the public entities, the information used in the calculation of indicators is available to the users of the financial statements. The annual financial statements of the departments, however, have to be adjusted for accruals in order for the users thereof to draw meaningful conclusions regarding their financial health. The situation depicted in the various figures above highlights the need for departments to move to the accrual basis of accounting.





GLOSSARY OF TERMS

ANNEXURE



AUDITOR - GENERAL  
SOUTH AFRICA





# GLOSSARY OF TERMS

<b>Accounts payable/ accruals/ liabilities</b>	Money owed by the entity to those who have supplied goods and services.
<b>Accounts receivable (debtor)</b>	Money owed to the entity by those who have received goods or services from the entity.
<b>Accruals</b>	List of expenses that have been incurred and expensed but not, paid or services rendered but not yet billed.
<b>Adverse audit opinion</b>	The financial statements contain misstatements that are not confined to specific amounts or the misstatements represent a substantial portion of the financial statements.
<b>Asset</b>	Any item belonging to the entity, which may constitute property, plant, cash or debtors.
<b>Asset impairment</b>	The reduction in value of an asset below its normal realisable value.
<b>Balance sheet</b>	Summary of an entity's financial status, including assets, liabilities and equity.
<b>Carrying value</b>	Also referred to as book value - the cost of a plant asset less the accumulated depreciation since the asset was acquired and less any impairment.
<b>Cash flow</b>	The flow of monies from operations: incomings funds are revenue and outgoing funds are expenses.

<b>Clean audit outcome</b>	The financial statements of the auditee are free of material misstatements (financially unqualified audit opinion) and there are no material findings on the report on performance against predetermined objectives or compliance with key laws and regulations.
<b>Commitments (financial)</b>	This represents the cost of goods and services to be received in the next year in respect of which the entity has already entered into an agreement to purchase.
<b>Comparative figures</b>	The figures recorded in the previous year which correspond to the figures for the same item in the current year.
<b>Consolidated financial statements</b>	Financial statements that reflect the combined financial position and results of a department and those of public entities under its control.
<b>Contingent liability</b>	A potential liability, the amount of which will depend on a future event.
<b>Current assets</b>	Current assets comprise cash and other assets, such as inventory or debtors, which will be traded or consumed or converted to cash in a period not exceeding 12 months. All other assets are classified as non-current and typically include property, plant and equipment and long-term investments.
<b>Disclaimer of audit opinion</b>	There was insufficient appropriate evidence (documentation) on which the auditor could base an opinion concerning the items reported in the financial statements. The lack of sufficient evidence is not confined to specific amounts or represents a substantial portion of the information contained in the financial statements.

<b>Financial and performance management</b>	Management of resources in order to achieve the financial and services delivery objectives of the auditee. This is one of the three key overall drivers of internal control which should be addressed to improve audit outcomes.
<b>Financially unqualified audit opinion</b>	The financial statements contain no material misstatements.
<b>Fruitless and wasteful expenditure</b>	Expenditure that was made in vain and could have been avoided had reasonable care been exercised. This includes penalties and interest on late payments, as well as payments for services not utilised or goods not received.
<b>General ledger</b>	A record of all financial transactions undertaken by an entity.
<b>Governance</b>	In the context of this general report it refers to the governance structures (audit committees) and processes (internal audit and risk management) as one of the three key overall drivers of internal control that should be addressed to improve audit outcomes.
<b>Information technology (IT)</b>	Computer systems used for recording and reporting financial and non-financial transactions.
<b>IT service continuity</b>	Processes of managing the availability of hardware, system software, application software and data to enable auditees to recover/establish information system services in the event of a disaster.
<b>IT security management</b>	Controls preventing unauthorised access to the networks, operating systems and application systems that generate and prepare financial information.

<b>IT user access management</b>	Procedures through which the auditees ensure that only valid, authorised users are allowed segregated access to initiate and approve transactions on the system.
<b>Internal control (key controls)</b>	Internal control is the process designed and implemented by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of the auditee's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with the applicable laws and regulations. Internal controls consist of all the policies and procedures implemented by auditee management to assist in achieving the orderly and efficient conduct of business, including adherence to policies, safeguarding of assets, prevention and detection of fraud and error, the accuracy and completeness of the accounting records and the timely preparation of reliable financial and service delivery information.
<b>Inventory</b>	Goods held for resale or for internal use.
<b>Irregular expenditure</b>	Expenditure incurred without complying with applicable laws and regulations.
<b>Leadership</b>	Leadership refers to the administrative leaders. This is also one of the three key overall drivers of internal control that should be addressed to improve audit outcomes.

<b>Leading department</b>	Leading departments are those auditees that monitor and set an example for other auditees in national and provincial government. Leading departments comprise Parliament, the nine provincial legislatures, the nine Offices of the Premier, National Treasury and the nine provincial treasuries.
<b>Material finding</b>	An audit finding on reporting on predetermined objectives or non-compliance with laws and regulations which is significant enough in terms of value and/or nature to influence the understanding of the reported information.
<b>Material misstatement</b>	Misstatements which are significant enough to influence the opinions of users of the reported information. Materiality is considered in terms of the rand value and/or the nature and cause of the misstatement.
<b>Misstatement</b>	Incorrect information in or information omitted information from the financial statements or annual performance report.
<b>Modified opinion</b>	Qualified, adverse or disclaimer of opinion.
<b>Payroll</b>	A list of employees and their wages.
<b>Pervasive findings</b>	Findings that are not confined to specific items in the reported information or that represent a substantial proportion of the reported information.
<b>Property, plant and equipment</b>	Includes land, buildings, leasehold improvements, equipment, furniture, fixtures, delivery trucks, vehicles, etc. that are owned by the entity.

<b>Qualified audit opinion</b>	The financial statements contain material misstatements in specific amounts or there is insufficient evidence for the auditor to conclude that specific amounts included in the financial statements are not materially misstated.
<b>Reconciliation</b>	The process of matching one set of data to another, i.e. the bank statement to the cheque register, the accounts payable journal to the general ledger, etc.
<b>Reporting against predetermined</b>	Reporting by auditees on their actual service delivery achievements against their annual objectives performance plans.
<b>Residual value</b>	The estimated scrap or salvage value at the end of the asset's useful life.
<b>Root causes</b>	The underlying causes or drivers of audit findings, i.e. why the problem occurred. Addressing the root cause helps to ensure that the actions address the real issue or opportunity, thus preventing or reducing incidents of recurrence as opposed to simply providing a one-time or short-term fix.
<b>Supply chain management</b>	Procurement by auditees of goods and services through a tender or quotation process and monitoring the quality and timeliness of goods and services provided.
<b>Transversal findings</b>	Findings that are cross-cutting or occurring in a number of entities.
<b>Unauthorised expenditure</b>	Expenditure that was in excess of the amount budgeted or allocated by government to the entity or that was not incurred in accordance with the purpose for which it was intended.

<b><i>Useful lives</i></b>	This is the period of time that it will be economically feasible to use an asset. Useful life is used in calculating the depreciation of an asset.
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# ANNEXURE 1: Auditees' audit outcomes, areas qualified, findings on predetermined objectives, non-compliance, specific focus areas, audit committees and root causes

Number	Auditee	2011-12			2010-11			Financial statement qualification areas	Findings on predetermined objectives				Findings on areas of non-compliance					
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Non-current assets	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement / limitations in submitted annual financial statements	Procurement management	Unauthorised irregular, fruitless wasteful and losses	HR management	Expenditure management	Other
<b>Departments</b>																		
1	Agriculture																	
2	Community Safety																	
3	Cultural Affairs and Sport																	
4	Economic Development and Tourism																	
5	Education																	
6	Environmental Affairs and Development Planning																	
7	Health																	
8	Human Settlements																	
9	Local Government																	
10	Premier																	
11	Provincial parliament																	
12	Provincial revenue fund																	
13	Provincial treasury																	
14	Social Development																	
15	Transport and Public Works																	

Legend (audit outcomes)	Financially unqualified with no findings	Disclaimer	Qualified	Adverse	Legend (drivers)	Good	Significant control deficiency	S	Legend (findings)	Addressed	A	Legend (movements)	Reduction	↑	Unchanged	Legend (root cause)	No significant root cause	A major root cause
	Financially unqualified with findings	Audit not finalised at 15 October 2012	Closed	Finding		Causing concern	Intervention required			New	N		Repeat	R	Increase		↓	





# ANNEXURE 1: Auditees' audit outcomes, areas qualified, findings on predetermined objectives, non-compliance, specific focus areas, audit committees and root causes

Number	Auditee	Province	2011-12			2010-11			Financial statement qualification areas	Findings on predetermined objectives				Findings on areas of non-compliance					
			Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Non-current assets	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement / limitations in submitted annual financial statements	Procurement management	Unauthorised, irregular, fruitless wasteful and losses	HR management	Expenditure management	Other
<b>Public entities</b>																			
16	Cape Medical Depot	WC	Green			Yellow		Blue							A	A	A		A
17	Destination Marketing Org (TA Cape Town Routes Unlimited)	WC	Green			Green													
18	Western Cape Gambling and Racing Board	WC	Green			Yellow	Blue	Blue								A			
19	Government Motor Transport	WC	Yellow		Blue	Yellow		Blue						R	A		R		N
20	The Heritage Western Cape	WC	Green			Yellow		Blue								A			
21	Western Cape Provincial Development Council	WC	Yellow		Blue	Yellow		Blue								A			N
22	Western Cape Cultural Commission	WC	Green			Yellow		Blue								A	A		
23	Western Cape Investment and Trade Promotion Agency	WC	Yellow		Blue	Yellow	Blue	Blue						N	A				A
24	Western Cape Housing Development Fund	WC	Grey			Red		Blue											
25	Western Cape Language Committee	WC	Green			Yellow		Blue								A			
26	Western Cape Nature Conservation Board	WC	Yellow		Blue	Green								N			N		
<b>Public entities (audits not conducted by the AGSA)</b>																			
27	Casidra (Pty) Ltd	WC	Green			Green													

<b>Legend (audit outcomes)</b>	Financially unqualified with no findings	Disclaimer	Qualified	Adverse	<b>Legend (drivers)</b>	Good	Significant control deficiency	S	<b>Legend (findings)</b>	Addressed	A	<b>Legend (movements)</b>	Reduction	↑	Unchanged	↔	<b>Legend (root cause)</b>	No significant root cause	Contributing root cause	A major root cause
	Financially unqualified with findings	Audit not finalised at 15 October 2012	Closed	Finding		Causing concern	Intervention required			New	N	Repeat	Increase	↓						



